OFFICE OF THE U.S. TRADE REPRESENTATIVE

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TRADE POLICY STAFF COMMITTEE

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PUBLIC HEARINGS

for

WTO NON-AGRICULTURE MARKET ACCESS

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MONDAY
OCTOBER 21, 2002

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The Committee met in Rooms 1 and 2 in the Office of the U.S. Trade Representative, 1724 F. Street N.W., Washington, D.C., at 10:00 a.m., Carmen Suro-Bredie and Donald Eiss, Chairs, presiding.

PRESENT

CARMEN SURO-BREDIE	A.M. Chair
DONALD EISS	P.M. Chair
GLORIA BLUE	Office of U.S. Trade Representatives
EDWARD DUNN	Department of Commerce
JEAN JANICKE	Department of Commerce
LESTER KORANSKY	Department of Labor
DAN LEAHY	USITC
FLORIE LISER	Office of U.S. Trade Representatives
PAUL MOORE	Office of U.S. Trade Representatives
ANNE PURCELL	Department of Justice
TOM TORRANCE	Department of State
ANA VALDES	Department of Labor

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P-R-O-C-E-E-D-I-N-G-S

10:12 a.m.

CHAIRPERSON SURO-BRODIE: The hearing will come to order. This hearing is being conducted by the Trade Policy Staff Committee, an interagency body chaired by the Office of the U.S. Trade Representative.

In addition to USTR, there are representatives from the Departments of Justice, Commerce, Labor, State, Treasury, and the U.S. International Trade Commission. Many members of the USTR staff working on market access will also be present.

The subject of this hearing is Market Access in the Doha Development Agency Negotiations in the world Trade Organization, specifically for non-agricultural products.

Comments are welcome, with as much specificity as the respondent can provide on general negotiating objectives and/or targets, country- and product-specific export interests or barriers, and particular measures that might be improved in the context of the new negotiations, including both tariffs and non-tariff measures. With regard to Non-tariff measures, any available details on the foreign laws or regulations that lie behind the barrier would also be helpful. To the maximum extent possible, commodities should be identified by Harmonized System nomenclature at the six-digit level, or preferable eight-dibit level or higher, where available, and should specify markets of interest.

The TPSC invites comments and testimony n all of these matters, and in light of the schedule for presenting market access offers, and Florie Liser will talk about that in a minute, and in particular seeks testimony addressed to the economic benefits and costs to U.S. producers and consumers of the reduction of tariffs or non-tariff barriers on trade between the United States and other WTO members, and the recommended staging schedule for reduction, and existing non-tariff barriers to trade in goods between the United States and other WTO members and the economic benefits and costs of removing those barriers. Existing barriers of the cost of removing those barrier.

Florie Liser, Assistant USTR for Industry and Market Access, will give opening remarks, after which the panel will introduce themselves and then we will hear from the first witness. Thank you.

MS. LISER: Thank you. First of all, welcome. We appreciate the fact that all of you are here today. We know that you're here because of the importance of non-agricultural market access in the particular industries and sectors that are of particular interest to you. I'm not going to read verbatim my statement. Obviously you have it, but let me just touch on a few things briefly as we go forward.

Obviously, all of you are aware of the importance of non-agricultural goods in terms of both the U.S. economic, as well as the global economy. They represent 90 percent of our exports, and I think some $630 billion in our trade last year.

We have several mandates that we are trying to meet, and want to be conscious of, as we move forward, and the framework within which we will take your particular points of view. One is the mandate that we have from Doha, which mandates that we go forward with non-agricultural market access negotiations. The other is from the TPA, where the Congress, the U.S. Congress, has clearly given us a mandate with regard to a number of non-agricultural market sectors, particularly those that were involved in the Section 111(b) of the Uruguay Round Agreements Act, as well as trying to get greater participation in the Information Technology Agreement, the Agreement on Trade in Civil Aircraft, address environmental goods, fish, textiles and apparel.

All of these are areas that are clearly delineated in the TPA, and what we are trying to do here today is to get your views, and we're very interested in getting them, and we appreciate the fact that you are here to give them to us, with regard to how we can approach these mandates, how we can find the right balance between addressing the need to open markets while at the same time being sensitive to particular issues in sectors within our own economy.

In terms of where we are right now in the

WTO, we have several deadlines that have been established for us. In fact, one is coming up very soon, November 1st, is the target date for submission of modalities proposals, with a deadline of December 31st. Then in March we hope to have, March of 2003, we hope to have a common understanding and outline on the modalities, and by May 30th, we should be having the agreement on modalities.

Obviously, we are still in the very early stages of the consultations and negotiations on non-ag market access, we expect that other countries will be putting forward some of their proposals soon, and in terms of where we are here in the United States, we want to take advantage of hearing from you today in these hearings, continuing to look at the written testimony which we got, which was quite extensive, and trying to continue to develop our modalities proposal, taking into account all of this information, and all of the information that you'll be sharing with us today.

So, we appreciate your being here, and again, thank you for coming, sharing your views, and welcome any of your thoughts on how we continue to develop our modalities proposal.

CHAIRPERSON SURO-BRODIE: Thank you, Florie. We'll have the panel introduce themselves, starting --

MR. TORRANCE: I'm Tom Torrance from the Office of Multi-Lateral Trade in the Bureau of Economic and Business Affairs at the State Department.

MS. LISER: I'm Florie Liser. I'm the Assistant U.S. Trade Representative for Industry, Market Access and Telecommunications at the Office of the U.S. Trade Representative.

CHAIRPERSON SURO-BRODIE: I'm Carmen Suro-Bredie, Chair of the Trade Policy and Staff Committee.

MR. LEAHY: Dan Leahy, I'm the Director of the office of External Relations at the Commission.

MR. DUNN: I'm Edward Dunn, Director of the Market Access Team at the Multi-Lateral Affairs Office at Commerce.

MS. VALDES: I am Ana Valdes. I am Bureau of International Labels and Fairly Department of Labor.

MR. KORANSKY: I am Lester Koransky. I am also with the Labor Department.

CHAIRPERSON SURO-BRODIE: Thank you. We will now hear from our first witness, Mr. Cooper, Counsel to the Rubber and Plastic Footwear Manufacturers Association.

MR. COOPER: Thank you, Madam Chair. I shall be very brief, and I look forward to whatever questions any of you may have. The Rubber and Plastic Footwear Manufacturers Association represents most of the domestic producers of fabric-upper footwear and rubber soles and protective footwear, as well as suppliers to the industry. While these companies do most of their manufacturing in this country, competitive circumstances have made it necessary for them to do a significant amount of importing as well. Any erosion of the duty structure of what is left of this industry would result in a substantial increase in their import activity with a corresponding sharp decline in, or elimination of, domestic production.

In our April 19 -- excuse me, 2002, our April 2002 testimony before the International Trade

Commission, we called attention to the then recent shift of Converse and Lacrosse to foreign shores, and to the elimination of their domestic production. I would remind you that Converse, a company of about 100 years of age, was at that time the largest domestic producer of fabric-upper athletic footwear in this country, and that Lacrosse, from Lacrosse, Wisconsin, was the largest producer of waterproof footwear in this country. Neither of them any longer produce in America.

Since my testimony before the ITC, S. Goldberg and Company, a distinguished century-old New Jersey slipper manufacturer, announced that it is closing its domestic operations in favor of imports, and Tingley Rubber, another century-old New Jersey company known for its protective footwear, has shifted its civilian production to Mexico. It is still doing its military production in this country.

There remain in this domestic industry four significant producers of protective footwear, and one major producer of fabric-upper athletic footwear. Each of these companies fully intends to continue and, if possible, increase its domestic production if present tariff rates are not reduced.

This is an industry where labor constitutes close to 40 percent of total cost, where fabric-upper imports take about 95 percent of the United States market, and protective footwear imports more than 60 percent. These imports come from WTO member countries where wages are from 1/15 to 1/20 of the level in this country.

Without exception, every examination of this industry in multilateral negotiations, the Kennedy round, the Tokyo Round, and the Uruguay Round, concluded that the industry's import sensitivity is such that tariffs should not be cut. Were it not for the restraint shown by your predecessors in these negotiations, the strong probability is that the companies still left in this industry would all have moved abroad. The record is compelling that our government acted appropriately in these three multi-lateral negotiations, and that the reasons for retention of existing duties demonstrated in those negotiations are all the more valid today.

The core items of the domestic rubber footwear industry are fewer in number today than was the case at the time of the Uruguay Round, and our plea that there be no reduction in duties is limited to those core items, the Harmonized Tariff Sytem numbers of which are listed in the appendix to my testimony.

I will be happy to answer any questions you may have.

CHAIRPERSON SURO-BRODIE: Thank you, Mr. Cooper. The first question will be asked by the Department of Labor.

MS. VALDES: Good morning, Mr. Cooper.

MR. COOPER: Good morning.

MS. VALDES: Thank you for being here today. In your testimony you mentioned that labor constitutes close to 40 percent of the total cost. Does this relate to the combination of non-foot -- non-rubber footwear or protective footwear production, or is production in the protective footwear industry characterized as labor or capital intensive, or does this characterization depend upon whether the production occurred, let's say, in low cost country?

MR. COOPER: I'm not sure I fully grasp the question. You did mention non-rubber footwear, and I'm not concerned about non-rubber footwear.

MS. VALDES: Okay. You're concerned about --

MR. COOPER: All the figures that I have cited are rubber footwear, and when I say average about 40 percent labor costs --

MS. VALDES: Close --

MR. COOPER: Close to, you know, and it varies from company to company and area of the country that they're in and so on, but that -- I think that's a fair and honest ballpark figure. I mean, what more can I say. That's about what the average percentage of cost would be, and this is -- the fact that it is a labor-intensive industry is what has propelled companies like Nike, for example, which had been a manufacturer in Saco, Maine before it picked up its shoes and left for the Pacific shores, where they now do all their manufacturing. This goes back now about 25 years, I guess, but it's because labor was so much cheaper abroad, and this is a product which requires labor. That's why -- I mean, that's what's happened to all of the companies which have moved.

Those companies which remain, if I can expand on this just a little bit, have been able to compete because of either quality of product, product recognition, closeness to the market, extraordinarily good management skills, very good labor force. There are a number of factors which have resulted in the remaining companies still being here, and there is no reason to believe that having weathered the storm thus far, they will not continue to do so, if, if, their tariffs are left intact.

MS. VALDES: Thank you.

CHAIRPERSON SURO-BRODIE: The next question will be asked by the Department of Commerce.

MR. DUNN: Thank you. Edward Dunn at Commerce. I would just like to follow up on your last point. Do you think that the retention of existing duties could lead to sustainable long-term growth in the rubber footwear industry here in the U.S.?

MR. COOPER: Yes, I do. A perfect

example of that is New Balance in the athletic footwear area. New Balance grew from nothing in this country to now having five plants in the northeast, and a plant in California, which they don't own, but which manufactures exclusively for them, and they also import a great deal, however, that's very close as against the extent of their imports as against their domestic manufacture. The fact of the matter is that they have expanded domestically and there is every reason to believe that given the quality of their product, and the quality of their management, and their desire to remain in this country, they want to be identified as an American manufacturer, not just an American company. There's every reason to believe that that company will continue to thrive.

The remaining waterproof companies in this country, while not quite as large as New Balance, are all substantial organizations, and they have -- they've been here for awhile. In one case, however, En Garde Industries is a new entrant into this market, which believes it can make it in this country. It is the successor to Bata Shoe. It occupies the premises that Bata had, it picked up about 150 of Bata's employees. It's today, a relatively small company. They want to manufacture in this country, they expect to manufacture in this country, their expectation is that the United States Government will encourage them to manufacture in this country, and will not make it impossible by cutting their duties.

MR. KORANSKY: Thank you.

CHAIRPERSON SURO-BRODIE: Thank you. The next question will be asked by USTR, Florie Liser.

MS. LISER: Mr. Cooper, what are the -- what's the export potential for the domestic protective footwear industry, and what are the key markets that that part of the industry is looking at?

MR. COOPER: The export potential is very, very limited, and that's an optimistic statement. The problem is the same problem that they face in this country. This product is being manufactured in countries like China, and go compete in foreign countries, because it's hard enough to compete in this country against Chinese manufacture. Go try to compete in western Europe or wherever thee's a market for protective footwear. So, it is with considerable regret, but I have to say to you what have said ever since the Kennedy Round, there is nothing that this multi-lateral negotiation can do which would be a satisfactory *quid pro quo* for this domestic industry. You can do everything possible, and I hope you will, to open markets for American products, but you're not going to be able to be successful, I fear, with respect to either protective or fabric-upper footwear for the reasons that I've pointed out to you.

MS. LISER: Thank you very much.

CHAIRPERSON SURO-BRODIE: Does the panel have other questions? If not, thank you very much for your testimony, Mr. Cooper.

MR. COOPER: Thank you.

CHAIRPERSON SURO-BRODIE: We will now hear from the next witness, Steve Lamar, Senior Vice president, American Apparel and Footwear Association. Could I remind all the witnesses that we would like to hold their testimony to five minutes so that we can ask questions. Thank you.

MR. LAMAR: Thank you for providing me this opportunity to appear before you this morning.

My name is Steve Lamar. I am Senior Vice President of AAFA with the National Trade Association of the apparel and non-rubber footwear industries. In my testimony I'll go into more detail, but at the end of the day, I just want to stress that our members big and small, we make everywhere, we sell everywhere, and I think that's an important point, and it drives the philosophy governing the testimony that I'm delivering to you today.

Last June our association delivered a new trade policy -- unveiled a new trade policy. A copy of this is attached. It's got four different planks, the first of which addresses market access.

As you look at that trade policy, I want to draw your attention to the following point. Although many of our members consider the U.S. to be their major market, we deliberately crafted this trade policy so that it could apply to any market, so we refer to it repeatedly to U.S. and to foreign markets throughout. Thus, when we advocate reduction of duties or call for greater market access, we are talking simultaneously about the United States and other countries.

At the outset, I'd like to applaud the Administration and other WTO countries for ensuring that textile, apparel and footwear tariffs remain on the table for the Doha Round. We're hopeful that there will be an equally strong commitment to tackle non-tariff trade barriers affecting these products as well.

As you know, these industries still face some of the highest barriers in effect today, whether in the United States or elsewhere around the world. In many cases, these barriers no longer protect domestic industries, but instead add extra costs to our own operations and to the prices that our products fetch in the market. In many cases, these barriers prevent us from sourcing our products in the most competitive manner and with the most competitive inputs. All these barriers, including those maintained by the United States, distort trade and production patterns.

In some cases, these barriers stand in sharp contract to the liberalization other parts of the economy, or economies as we're talking about other countries, have increasingly enjoyed. For example, in 2001, U.S. importers of textiles, apparel and footwear, as characterized in Chapters 50 through 65 of the HTS, collectively paid $9.5 billion in duties to the U.S. Customs Service. This means that our industries accounted for one out of every two dollars paid by the -- collected by the Customs Service, even though we only accounted for eight percent of all imports. In the testimony that I dropped off here, there is a graph that illustrates that in some comparison, in some more detail.

In other countries, the situation is even worse. While U.S. tariffs in these industries hover around 15 percent for apparel and eight percent for non-rubber footwear, and there are times when they're much higher, when we do have specific peaks, effective tariff rates in these industries are often two and three times higher in many other key countries, and to make matters worse, these countries bind their tariff rates at even higher levels.

Turning to non-tariff barriers, we are pleased to note that the scheduled January 1, 2005 elimination of the worldwide textile and apparel quotas system, combined with elements of the China accession agreement, will significantly eliminate non-tariff measures in the coming years. But we are concerned that many visible and hidden non-tariff measures still remain. Meaningful trade liberalization in our industries will only work if tariff reduction is coupled with significant elimination of non-tariff barriers.

We again stress that many of our members make products in foreign countries and ship them to other foreign countries. Others make them in the United States and ship them abroad as well. AS a result, access to foreign markets is important, not only because it generates U.S. exports, but also because it generates sales opportunities for U.S. branded products made in other countries. These sales opportunity still promote numerous U.S. economic benefits, including U.S. employment. As you all look to promote the interests of U.S. companies in the next round, you should keep in mind this dynamic please.

As you move forward with these negotiations, we would like to make the following recommendations. The U.S. should seek reduction or, if possible, elimination of all tariffs, including those maintained by the U.S., affecting textile, apparel, and non-rubber footwear products. I'd like to point out that you're hearing today from three associations that represent footwear industries. As far as I can tell from reading all the testimony, all three of them talk about reduction, they all agree about reduction of non-rubber footwear, and I think many of them even talk about reduction of most rubber footwear duties as well. I think you'll have a discussion between the two later on, but you can see that there is obviously some consensus there that didn't occur before.

The U.S. should seek reductions on these products from both developed and developing countries. The U.S. should insist that all tariff rate reductions be made from applied tariff rates. The same -- the example set in the FTAA, the agreement that you all have, I think should be the guiding principle here.

The U.S. should be prepared to use whoever modality, whether it's sectoral, formula, or a combination of them, that will achieve meaningful tariff reduction at the earliest practical date.

The U.S. should also make a priority to achieve decisive and swift elimination of non-tariff barriers in textile, apparel, and footwear industries. This means any concessions made to developing countries regarding the so-called special and differential treatment initiative should not permit the waiver or delay of trade obligations for such things as customs valuation, intellectual property rights, and standards and a host of other issues, and although not specifically part of the non-agricultural market access negotiations, we encourage you to make trade facilitation be an important priority.

In conclusion, let me reiterate the strong support of our association for the successful conclusion of the Doha Round. We were strong advocates of TPA and have long worked for trade liberalization, and free trade in other endeavors. In this case, we urge the Administration to use this authority to conclude the Doha Round, with meaningful non-agricultural market access, as soon as possible. With that, if there are any questions, I'll be happy to take them.

CHAIRPERSON SURO-BRODIE: Thank you, Mr. Lamar. Thank you for keeping to the five minutes. The first question will be posed by the State Department representative.

MR. TORRANCE: Good morning, Mr. Lamar. I'm Tom Torrance from the Bureau of Economic and Business Affairs at the State Department, and I have a two-part question. First, what percentage of your members use U.S. apparel preference programs, such as the Caribbean Basin Trade Preference Act, AGOA or NAFTA, and second, what effect would reduction on apparel tariffs have on their preferential operations, vis-a-vis imports from other foreign countries, especially far eastern countries.

MR. LAMAR: I think most of my members use the preference programs to some degree for some aspect of their sourcing. I've got some members that are fairly strongly committed to those programs, and others that might use it for a smaller percentage, so I'd have to say most of them use it for many of their sourcing, but not necessarily all, and for each one not necessarily a majority.

The effect it would have, I think you have to kind of look first and see what effect it has right now. For certain products, where there may be a high tariff rate or maybe it's a simple product to produce, it might be easier to use the tariff preference program than for other products where it might be more difficult.

As -- I find a lot of my members are doing things where they're still producing, for example, in El Salvador, but using Chinese fabric, so they're still producing a product in one of the countries that could enjoy the preference benefits, but they're deliberately taking themselves out of the preference program because it makes more sense from a competitive standpoint to produce outside of the preference program but in their country still.

So, I'm not sure what will happen as -- you know, if other tariffs come down, whether that will encourage people to move to other countries or not. I think it's too hard to say at this point. Because not -- everybody's not using the preference programs the way you would logically assume that they've used it. They go inside the preference programs and therefore they're saving duties and they're bringing the product in less expensively than if they had to pay duties. In many cases you can still produce a garment at full package from Asia, or in Central America, using components that take you out of the preference program and still be at a product that would be in the preference program. So, in those cases, the preference program isn't really having an effect at all.

CHAIRPERSON SURO-BRODIE: Could I ask a follow-up question on that?

MR. LAMAR: Sure.

CHAIRPERSON SURO-BRODIE: Is that because the production runs are being sent to the United

States and other countries at the same time, with a preference to other countries?

MR. LAMAR: It's a lot of reasons. It might be that you don't feel that you can find the inputs in the United States. It might be that the inputs in the Untied States might be more expensive than what you can price somewhere else. It might be that you're using the stuff in the United States for quick response as opposed to the stuff in Asia you're using for a longer term. I mean, there's -- you talk to four people and you get five different answers about what you're -- what's the reason for this.

CHAIRPERSON SURO-BRODIE: Thank you. Do you have another question? The next question will be posed by USTR.

MS. LISER: Mr. Lamar, you suggest in your testimony that we have the same approach for all participants, both developed and developing, in terms of tariff elimination for apparel, textiles and footwear, and just wondering, would this be the end point that we end up at the same place, and would you apply this same approach for the least developed countries?

MR. LAMAR: I think the faster you can get all of the countries up to the same level, I think the better it is for everybody. I mean, I understand that you may need an approach where you start out with people differently, but the faster you can get everybody to a point where they're providing meaningful market access, I think that's better from both a practical term and from a political term. As I know you've discovered recently, and as I've seen recently, I think a lot of the opportunities for market access will be South-South trade, and there's a real perception I think in the developing world that they need to retain their tariff or non-tariff barriers, either to protect sensitive industries or to retain revenues for their own government operations. And I think we really need to, through a process of education or through the negotiations really, to take these countries away from that mindset into the point where they realize the benefits of trade liberalization will be quite substantial for both employment and for the consumer perspective in their own economies as well as in our economy we can get them further.

MS. LISER: Just a quick follow-up question. What do you think our response should be to, particularly the least developed countries, who would say that the mandate in Doha is to give them a different sort of path there, that they not be lock step with every other country that's doing tariff liberalization.

MR. LAMAR: I think the longer we keep the least developed countries out of the full picture, I think the longer it's going to be before they are no longer least developed countries.

CHAIRPERSON SURO-BRODIE: Thank you. The last question will be asked by the Commerce Department.

MR. DUNN: Thank you. I was wondering if you can elaborate on some of the non-tariff barriers that you say still remain for textile, apparel and footware products. You mentioned a few, customs issues, and -- but if you could just expand on that a bit I'd appreciate it.

MR. LAMAR: Different labeling requirements that are in place, different standards, jeez, I probably would have to go back and give you a list of them to give you more detail on them. There's -- I mentioned, as I say, Customs valuation and there's a host of Customs-related barriers which I don't know whether they're a non-tariff barrier or whether they're a trade facilitation measure. When I've been trying to get a list of non-tariff barriers, I find that some people were afraid to -- for example, anti-dumping measures is a non-tariff barrier, so I -- it's hard to know for sure all the different issues. I would prefer to get back to you with something a little bit more detailed.

MR. DUNN: That would be very helpful. That's one of the things we're trying to pull together, so please do.

MR. LAMAR: Okay.

CHAIRPERSON SURO-BRODIE: Does anyone on the panel have another question? No? Then if you could send your written response to G. Blue at USTR.gov?

MR. LAMAR: Okay.

CHAIRPERSON SURO-BRODIE: She'll send it forward to the panel members.

MR. LAMAR: Okay. Great.

CHAIRPERSON SURO-BRODIE: Thank you. Our next witness is Mr. Peter Mangione, President of the Footwear Distributors and Retailers of America. Welcome.

MR. MANGIONE: Good morning. I am Peter Mangione, President of the Footwear Distributors and Retailers of America. FTRA's members account for approximately three-quarters of all footwear sold at retail in the U.S. and for the vast bulk of imported footwear into the U.S. We are pleased to appear today to urge that all duties on footwear imported into the U.S. be eliminated entirely on the first day of implementation of the Doha Development Agenda.

We make this recommendation for several reasons. First, with import penetration in the footwear sector at 97 percent, this is 2001 data, duties on footwear have lost all relevance and have no commercial significance. This is so because the price of imported footwear, after application of MFN duties, is vastly cheaper than U.S.-produced footwear. Indeed, the differential between U.S.-manufactured and imported shoes ranges, after application of U.S. duties, from between 60 percent lower to 40 percent lower depending on category. Clearly, U.S. producers long ago lost the price battle with imports, and the price adjustment mechanism, tariffs, are irrelevant and pointless.

Second, there is no connection between continuance of tariffs and U.S. footwear manufacturing and its jobs. The little remaining U.S. shoe production only survives by differentiating itself on bases other than price, such as brands, product positioning, size and width strategy and the like. Indeed, in its most recent footwear investigation involving shoe duties under NAFTA, the ITC concluded that, "domestically produced footwear articles compete mostly on non-price factors such as brand names, product quality and differentiation and support services". We agree. Elimination of duties will not affect these strategies.

Third, shoe duties are a huge consumer tax. In 2001 more than $1.6 billion was paid to the Treasury in shoe duties, which amounts to some $3.2 billion at retail, applying normal markups. With only 19,800 U.S. workers in the low duty shoe area, the cost is over $100,000 per job. The cost per job in the high duty area, which is rubber footwear, where there are some 2,500 U.S. manufacturing jobs, the cost is approximately $430,000 per job annually.

We thank you for your attention this morning.

CHAIRPERSON SURO-BRODIE: Thank you very much, Mr. Mangione. The first question will be asked by USTR.

MS. LISER: We were very interested in knowing whether your association has done anything to develop a consensus with other countries around the particular approach that you suggested in your testimony.

MR. MANGIONE: We are very interested in a sectoral approach in footwear and duty elimination and reduction in the Doha Round. We have made overtures to all of the major shoe producing and importing countries and blocks around the world, including the European Union, Canada, Japan, China, Indonesia, Thailand, and others, and I can say at this stage, after having had preliminary talks with industry and government in most of those countries, most of those entities, that there is interest in pursuing this sector as a sectoral negotiation. I can't say that they are all where the United States is, which I believe -- that is to say the industry in the United States is, there is consensus with respect to non-rubber footwear, there is as you heard this morning, complete consensus on that subject, which I might add, accounts for about 80 percent of all footwear imports, and in the rubber area, there are some items that Mr. Cooper has mentioned this morning, which his group objects to, but there are other rubber items which are not on his list, which I take it there is therefore consensus to eliminate those tariffs as well. As I say, I think the other importing and exporting footwear entities around the world are now just focusing on this question, and we have done everything we can to get their attention and I would say there is interest, but we'll have to see as time goes on and as countries start to put positions on the table, just how successful our efforts are, but we are certainly vigorously pursuing it.

CHAIRPERSON SURO-BRODIE: Thank you.

MR. MANGIONE: You're welcome. The next question will be asked by the Department of Commerce?

MR. DUNN: Thank you. Just to follow up you stating that tariff elimination will not affect any of the strategies adopted by remaining U.S. manufacturers, but you note that there are some items on -- that are not on the list provided earlier by Mr. Cooper.

MR. MANGIONE: Yes.

MR. DUNN: Can you explain to us what those items are and how you think that the -- you two have obviously taken a different approach here on the value of tariff, so if you could just expand on that a bit.

MR. MANGIONE: On the items that are not on his list?

MR. DUNN: Right --

MR. MANGIONE: The rubber items?

MR. DUNN: -- and whether you think -- and how tariff elimination would or would not impact --

MR. MANGIONE: Well, I think the reality is that the items in the rubber area that are not on Mr. Cooper's list, there are no U.S. manufacturers of them that he represents, or that care about this. They would, for example, be in the slipper area, which is by far the most significant and largest rubber footwear item, slippers, fabric-upper, rubber out soles, slippers. There was one U.S. manufacturer of this product, S. Goldberg, they closed their factory this year. The company is in very good shape. They're a major importer. They were before they closed their factory, they continue, but that's probably the most significant item. The other items would be, for example, some of the foxing items in the lower price ranges that New Balance apparently doesn't care about. These also would be zero duties, and they're very high duty at the moment, some up to 67 percent, but we can furnish for the record the complete list if you like. I didn't bring it with me, but I can certainly furnish it for the record, and characterization of -- but again, I don't think there would be any impact whatever except on the consumer, who is paying a gigantic tax where there are no U.S. producers.

MR. LEAHY: Dan Leahy from the International Trade Commission. For the producers of the products that were on Mr. Cooper's list, his contention is any reduction would in fact --

MR. MANGIONE: Sure.

MR. LEAHY: -- move them out of the country. Your view on that?

MR. MANGIONE: Well, I mean, we couldn't disagree more. The fact of the matter is that in the face of drastically lower priced competition today, they continue to make shoes here, and when your competition is 40 percent lower at first cost than you -- not first cost, at landed cost, in this country, after tariffs. If price were the determinant factor, you'd be out of business.

The reality is that you are able to

maintain production and maintain a place in the market place, by differentiating your product on something other than price, and this is what they have all done. I think in the -- you know, Mr. Cooper's group is really two groups there. One is the protective footwear, the rubber protective footwear group, there's three or four of those. Basically this group manufactures you know, firemen's boots, and chemical protective-type footwear. Highly specialized niche kind of product where often you have municipalities specifying the type, the construction, so forth and so on. These kinds of niche items, really, just don't lend themselves to importing. They just don't. I mean, importers -- factories overseas and the rest of the distribution channel like to make products that have wide distribution to justify the investment and so forth. So, they're largely shielded by the type of product that they manufacturer in the rubber area.

Of course, New Balance is a different story altogether. New Balance doesn't make protective footwear, they only make athletic footwear, and some casual footwear, and the athletic footwear that is being -- that we're being asked to keep the duties on, they manufacture overseas, they manufacture here. I mean, it's a blend, and it is this blending and the tremendous success of the marketing and the brand, that allow New Balance to keep the factories open.

I mean, it's our contention that essentially what New Balance, which is a billion and a half dollar company, does is they make profit on their imports and then they use that to subsidize their local production, which is perfectly fine. It's a prerogative they have, they're entitled to do it, I think it raises some serious public policy questions, whether government and the public should be asked to contribute to that endeavor.

But I would say in their case there's practically no likelihood whatsoever that if the tariffs were to end they would change their strategy. If their strategy of manufacturing here makes sense today, it would make sense without the tariffs, and, of course, their company would benefit tremendously by eliminating the tariffs, by allowing their imports to come in duty-free, which would free up more funds for their local production, if they wanted to devote their funds to that.

MR. LEAHY: Thank you.

MR. MANGIONE: Sure.

CHAIRPERSON SURO-BRODIE: We had an additional question from the Department of Labor?

MR. KORANSKY: Lester Koransky from the Labor Department. Good morning. I guess I have several-part question. Sorry about that. Lester Koransky from the Labor Department. You mentioned that there was a differential between U.S. manufactured and imported shoes, ranging from 60 percent lower to 40 percent lower, depending upon the category. A couple of questions. Does the same ratio apply after applying normal markups? Is it still the same ratio, or is it --

MR. MANGIONE: The ratio wouldn't change after the margins. It starts out that way would be after the -- the margins would be the same on either one, for sure.

MR. KORANSKY: Once the tariffs are eliminated, what would the differential be then between the two, do you have an idea roughly?

MR. MANGIONE: Well, it would be greater of course.

MR. KORANSKY: How much greater?

MR. MANGIONE: Well, again, this would depend on the tariffs. In the case of rubber footwear where the duties are much higher, the differential which is presently 40 percent would go up substantially, I'm sure.

MR. KORANSKY: And how much of the benefits if the tariffs were eliminated do you feel would go to the consumer?

MR. MANGIONE: There's little doubt that most of the benefits would go to the consumer, although this is a question for the economists to try to figure out, and frankly I think -- the real answer is the marketplace will determine. But based on -- and my written submission goes into this in some detail, and the ITC was extremely interested in this subject when we appeared before them, but there is compelling evidence in our sector that when you eliminate barriers, the consumer reaps the benefit.

This is due to the fact that we are -- the footwear sector is extremely price competitive at retail. More than half the market is dominated by the discount or mass market sector, Payless, Wal-Mart, K-Mart, Target, these kinds of companies, and there is intense price competition.

We also know that when the quotas on footwear were eliminated in the early eighties, we went from a fully-regularized regulated market with quotas on the major supply sources, to a completely open market, and prices fell sharply. They actually went up incrementally as the quota years progressed. This is all documented in my written submission. And then once the quota period ended, they fell sharply and continued to fall after the quotas ended.

Also, we had a tariff ruling in our sector earlier this year -- well, actually it began about two years ago, but the final ruling came out April of this year, in conjunction with slippers, where the tariff was 37½ percent for a fabric-upper, rubber outsole slipper.

The Customs Service decided that if you

put a fabric outsole on that slipper, very thin fabric outsole, you could change the classification to 12-1/2 percent if it's a plastic upper, or a -- not plastic, well, a synthetic upper, 7-1/2 percent if it's a cotton upper. This, overnight, the tariffs, because the whole trade shifted the way they made this product, from a rubber outsole to a fabric outsole, virtually overnight, and again, the duties fell drastically, the import prices fell drastically, and the retails fell almost in tandem with the reduction in duty, and this is again documented in our written submission.

So I think in our sector, and I cannot speak for other sectors, but in the footwear sector, I think the evidence is pretty clear, consumers get most of the benefit. How much, again, depends on the marketplace, and it would depend on marketing and a lot of other factors, but I think that, again, based on the empirical evidence, the consumer seems to be the principal beneficiary of eliminating the barriers.

CHAIRPERSON SURO-BRODIE: Thank you very much, Mr. Mangione.

MR. MANGIONE: You're welcome.

CHAIRPERSON SURO-BRODIE: The next witness is Mr. Charles Bremer of the American Textile Manufacturers Institute.

MR. BREMER: If I may, Madam Chairman. Good morning. My name is Charles Bremer. I'm the Vice President for International Trade of the American Textile Manufacturers Institute, which is the national trade association of the domestic textile mill products industry.

ATMI is pleased to have this opportunity to comment on the market access aspects of the Doha Development Round for these negotiations afford the United States the opportunity to right a great wrong. Put quite simply, in the previous round of multilateral trade negotiations, the Uruguay Round, the United States gave generously in terms of enhanced market access in the field of textiles and apparel, but got little in return.

To be sure, there are those who contend that the United States has not fulfilled its commitment to provide enhanced market access pursuant to the terms and conditions of the Uruguay Round Agreement on Textiles and Clothing, otherwise known as the ATC. Such claims are unfounded, as a review of the relevant data would quickly reveal. From 1994, the year before the ATC went into effect, to the present day, U.S. imports of textiles and apparel have soared from 17.3 billion square meters equivalent to an annual rate of 35 billion square meters, an increase of nearly 18 billion square meters or 102 percent. If that's not enhanced market access, I don't know what enhanced market access is.

However, many of the beneficiaries of this increased access to our market have not returned the favor, even though the ATC mandated that they do so. By maintaining high tariffs and a bewildering array of non-tariff barriers, these countries, who consider international trade in textiles and apparel a one-way street, have kept the United States and other countries out of their domestic market. The attached chart, titled "Current Market Access Conditions of Textiles and Apparel", shows who the offenders are and the relative severity of their offenses. The objective of the Doha Development Round should be to bring every country into the lower left-hand quadrant of the chart, where the United States is.

From the attached chart it is apparent that large inequities exist in international textile and apparel trade. These inequities must not only be addressed in the Doha Round, they must be abolished. Before the United States engages in any dialogue regarding further enhancing access to its market through tariff reductions, all nations must agree to bring their textile and apparel tariffs down to the level of the United States' and remove, permanently, their non-tariff barriers. Simply put, the playing field must be level before the game begins.

In order for these objectives to be attached, negotiations in textile and apparel trade must be conducted on a sectoral basis. The issues surrounding and defining textile and apparel trade are so many and so complex that a specialist approach is needed. This simple but powerful truth was recognized in the Kennedy, Tokyo and Uruguay rounds, all of which conducted textile and apparel negotiations in a sectoral manner. More than a quarter century of multilateral trade negotiations under the former GATT used this approach. Now, with so much at stake and the offending countries so intractable, is not the time to abandon it. More to the point, the domestic industry requires a sectoral negotiation lest its interests be traded off for consideration in other, unrelated areas as it was in the Uruguay Round. Equally to the point, countries with closed markets will try to escape their obligation to remove barriers by linking those actions to some non-textile objective that is clearly unattainable. These linkages then become pretexts for keeping markets closed.

Access to foreign markets will be the key to the future survival of our industry. Today the U.S. is the world's sixth largest exporter of textiles, but nearly all of these exports go to the nearby countries with whom we have preferential or free trade agreements. WE want that trade to grow, but we can, given the opportunity, also export to other countries as well.

Another essential aim of the Doha Round

should be the inclusion of strong language in the final document dealing with Customs fraud in textile and apparel trade. Language at least as definitive as that contained in our free trade agreements and the laws authorizing our preferential trade agreements is necessary.

Finally, the Doha Round should speak explicitly to the matter of intellectual property protection for textile and apparel products. This must be dealt with in a forthright manner, not as part of some amorphous understanding on intellectual property protection, and there must be no exceptions allowed. No country can be allowed to pirate textile or apparel intellectual property. There is no justification, and there is no excuse for such behavior.

In closing, ATMI would like to reiterate our strongly held position that the Doha Round must open those markets now closed or nearly closed to U.S. textile exports. At that point only should there be any consideration of further cuts in U.S. textile and apparel tariffs. Thank you.

CHAIRPERSON SURO-BRODIE: Thank you, Mr. Bremer. The first question will be asked by USTR.

MS. LISER: Thank you very much, Mr. Bremer. Regarding the recent international meeting of 34 industry associations, we note that representatives from Bangladesh, India and Brazil also advocate liberalization of closed markets. Do these associations support ATMI's negotiating position that all other nations must come down to U.S. tariff levels before the United States makes any further reductions on textiles and apparel?

MR. BREMER: That matter was not discussed at that meeting. There was no agreement, there was no understanding. However, I would strongly suspect that some of them would have a differing view. They would not want to do that.

MS. LISER: Let me just follow up. Was there a general agreement though that barriers in countries like India and Brazil, that they agreed or believed that they too should reduce those barriers?

MR. BREMER: It is my feeling, and I cannot speak for the Indians or the Pakistanis or the

Brazilians, or any other country that keeps its market closed, it is my feeling that they would be reluctant to undertake such action. They are all, and with good cause, scared to death of China.

MS. LISER: So the statement then, that they supported market liberalization in those sectors, what do you think that that means?

MR. BREMER: I will take a very cynical view, ma'am, that means we should liberalize. Liberalization for them means the Unites States, Europe and Japan liberalize, not them. But there was an amorphous sort of consensus agreement that there should be, without specifying particular countries or regions, there should be liberalized access worldwide.

MS. LISER: Right. Okay.

CHAIRPERSON SURO-BRODIE: Our next question will be posed by the State Department.

MR. TORRANCE: Mr. Bremer, how would you suggest that we try to sell to the least developing countries, your association's position that tariffs must be cut to the same level for all countries, particularly those that may not export much or are only competitive in a few lines?

MR. BREMER: There are some least developed developing countries who do export a considerable quantity of apparel to the United States. I'm thinking in particular of Bangladesh and Cambodia and Viet NAM. Our position, as I stated, is that their tariffs should be down at our level. We should all be trading with each other at the same level of tariff.

How would I explain that to them? I would just say it is a mandate that you bring your tariffs down, and you start trading with each other. The United States is not the only market in the world. Everybody thinks it is. I want them to trade with each other, as well as with us, and I want to trade with them too. We can provide -- my industry can provide many of the fabrics that those nations use to produce their exports.

As an example, the last time I checked, it was about five years ago, I must confess, but the largest denim producer in India was selling 14 and 3/4 ounce, the standard blue jean denim, 14 and 3/4 ounce per square yard, indigo dye, blue denim, for a dollar a yard more than our members. But we couldn't sell into that market because the tariff walls and the non-tariff barriers were so high, but the largest mill which owns a very large share of the Indian domestic market, it was selling the goods for a dollar a yard more than we were selling it.

MR. TORRANCE: If I could just ask a follow-up question. The Doha mandate acknowledges that developing countries would not have to give full reciprocity in tariff reduction negotiations. Therefore, it seems to me that we're going to have quite a sale to make if we're going to try to persuade them to give up something that they felt that they achieved out of the Doha mandate.

MR. BREMER: I would agree with that assessment, but again, we feel it's necessary for us -- and I hate to use this shop one cliche, for the playing field to be level. If you're going to charge me a -- if I'm going to charge you a 12 or a 14 percent tariff, that's what you should charge me, and these countries who continue to develop their trade, selling to the richest markets in the world, the United States, Europe and Japan, even if their tariffs are low, because they are not large consumers of these products, and many of them, I'm afraid to say, they don't produce for their domestic market. This is how industry got to be as large as it is, or was, I should say. We serviced our domestic market. They don't service their domestic markets.

MR. TORRANCE: Thank you.

CHAIRPERSON SURO-BRODIE: The next question will be asked by the Department of Commerce.

MR. DUNN: Thank you. You said in your testimony that your industry requires sectoral negotiations so that its interests won't be traded off in other unrelated areas. I'm curious about your thoughts on what would happen if another approach were taken. For example, a comprehensive formula approach which would treat all industries the same.

MR. BREMER: I would imagine we would be against such an approach. I participated as an advisor form the industry, I formerly worked for a textile firm, I participated in the Kennedy and Tokyo and Uruguay Round negotiations, and in each case, the tariff cutting on textiles and apparel was handled on a piecemeal basis. Some tariffs were not changed, some were changed dramatically. It was not an across-the-board formula-type cut. To be quite candid, there are some products where this industry can live with tariff cuts, and there are some we cannot. We are pleased, as we did in those previous rounds, to recommend to the government which tariffs can be cut. I mean, for example, in the Uruguay Round, it was with the agreement of all parties concerned, that we could eliminate our tariff on non-woven fabrics, and we did in five years. We could agree, and we did, to eliminate the tariff on silk fabrics, and we did. This is the kind of approach, as I say, a piecemeal and specialized approach, that we believe is necessary.

MS. LISER: If I could just ask a follow-up question. Do you think that a request offer type of approach as was taken in previous rounds, would get broadly at the range of tariffs in this sector?

MR. BREMER: I think that would be the

approach we would prefer to see followed, request an offer.

MS. LISER: But I'm asking whether or not you think that obviously a request offer then narrows it down to certain things that you can get from certain countries as opposed to a broader approach where you may be able to get cuts from a wider range of countries on a wider range of products. I was asking more your thoughts about the trade-off in terms of being able to get a wider range of cuts on a wider range of products.

MR. BREMER: Well, I trust that when we talk about tariff cuts we're talking specifically about Section 11 of the tariff. In other words, I shouldn't want to see United States textile or apparel tariffs traded off for citrus fruits.

MS. LISER: I mean within the textile and apparel industry, whether or not we might be able, from your point of view, as opposed to request an offer, where you're just narrowing it on specific lines with specific countries, whether or not a broader approach might not get us a wider range of cuts from a wider range of countries, many of which you have stated in your testimony have barriers against --

MR. BREMER: Our experience and observation, to answer your question, is no that is not an acceptable or would not be a particularly fruitful approach.

MS. LISER: Okay.

MR. BREMER: If I may make another bad simile. This business needs to be approached with the precision of a surgeon, not with a shotgun.

MS. VALDES: Mr. Bremer, I have a follow-up question. You mentioned that Bangladesh and Viet Nam and Cambodia should lower their taxes, their tariff, at our level. How we do with Cambodia and Viet Nam being not a WTO member? Do you have in mind, can you give us some idea how can we work that out?

MR. BREMER: I think our approach and our answer to that question would be, we do not reduce any tariff, any textile apparel tariff, by one tenth of one percent until all countries, all countries are down to our level.

CHAIRPERSON SURO-BRODIE: We have an additional question from the International Trade Commission.

MR. LEAHY: Mr. Bremer, your testimony has been to textiles and apparel. You have just brought up this idea of being surgeons as we approach this. Do we have more flexibility if we look at apparel separately from textiles?

MR. BREMER: I would expect yes. Tariffs on apparel products are generally higher than on textile products, and we do import, in dollar terms anyhow, more apparel than we do textiles. They should probably be handled and considered separately.

MR. LEAHY: Could we perhaps look to make greater cuts on -- let's say not make greater cuts, but have an ability, perhaps, to have reductions in the apparel side versus the textile side? Assuming we got people to the point that you want. I know what your starting point is, now I'm thinking beyond your starting point. Is there more flexibility on the apparel side for U.S. tariffs to come down versus the textile side.

MR. BREMER: I would expect the answer is yes.

MR. LEAHY: Thank you.

CHAIRPERSON SURO-BRODIE: Does the panel have any more questions? Thank you, Mr. Bremer. The next witnesses are Mr. Michael Byowitz, Section of the International Law and Practice, Chair of the General Division of the American Bar Association and Mr. Abbott B. Lipsky, International Officer, Section of Antitrust Law Committee of the American Bar Association. The panel will be joined by a representative from the Department of Justice. Could you please introduce yourself?

MS. PURCELL: Yes. My name is Anne Purcell, I am with the Foreign Commerce Section of the Antitrust Division at Justice.

CHAIRPERSON SURO-BRODIE: Thank you. If you would begin, and I would like to remind you that the testimony should be no more than about five minutes. Thank you.

MR. BYOWITZ: Okay. My name is Mike

Byowitz, and I'm a partner at Wachtell, Lipton, Rose & Katz in New York. With me is Tad Lipsky who is with Latham & Watkins. Dick Cunningham, who is the chairman of our joint task force of our two sections, was initially going to be here today. He's a trade lawyer at Steptoe & Johnson, but he was unable to make it.

What we want to do is talk about a report that our two sections, in a joint task force, generated several years ago, that we think has possibly a particular application now that market access is becoming an issue on the table. The task force was composed of many leading antitrust trade lawyers, and what we were looking for is not to have the usual debate about the different disciplines leading to different results, but to see if we could find common ground, and we think that we did.

We in fact generated two papers, one on market access, which we have submitted and the prepared testimony summarizes, the other is on convergence of competition laws, and we have a third paper, it's almost ready to be released, on negotiated resolutions on extraordinary trade disputes. I need to say by way of disclaimer that the positions that are being asserted here today are those of the two sections of the ABA, but they have not been approved by the ABA House of Delegates. This is a standard procedure in the ABA called blanket authority.

What we do is recommend that the U.S. government urge the adoption of an antitrust based standard to address certain market access barriers. Now what we're not talking about are government-imposed barriers. Our sense in our report indicates that the trade laws do a pretty good job of addressing those trade laws and trade agreements, or in theory can, and antitrust laws do not do a particularly good job there.

What our report focuses on is private market access barriers, and examples of that might be vertical agreements to exclude foreign suppliers from market sales of industrial components, such as are alleged to have existed in Japan, Korea, and Indonesia or vertical or horizontal cartel type arrangements to prohibit purchases of important materials, such as high-fructose corn sugar.

The trade laws - the trade lawyers tell us, and Mr. Lipsky and I are both antitrust lawyers, but the trade lawyers in our group tell us that the trade laws are not particularly good at addressing private market access barriers. In fact, to a substantial degree, they don't touch the subject at all, and where they do, they haven't been terribly effective.

The U.S. antitrust laws are very good at attacking private anti-competitive conduct when it occurs in the United States, and for many years now, the agencies have been looking at the possible extraterritorial application of those antitrust laws, and there are problems with that. They're unpopular with trading partners, and they can be ineffective for a variety of reasons relating to lack of personal jurisdiction, difficulty of getting evidence, and difficulty of enforcing foreign judgments. We don't say in our report that that remedy or approach would be abandoned, but that something else is needed.

The parameters of our proposed solution, and what we thought about in reaching that result, is that we want to be effective, but we want to be principled. So we're not -- we do not want to urge other countries to attack conduct that we would not make illegal under our own laws. Our antitrust laws, we think, strike the right balance in terms of being focused on achievement of consumer welfare. They protect the process of competition, not the results. They don't foredeign any particular results, and they do impose within limits a survival of the fittest mentality, and we think that is efficiency-enhancing.

What we would like to see is foreign countries adopt the same approach. We think that if we pursue an approach like this we put the U.S. government -- the U.S. government, if it pursued this approach, would be putting itself in a position of advocating internationally what it practices domestically, and would be more effective in that regard.

What we propose specifically, and this is laid out in the prepared testimony, is that the U.S. government should affirm the importance of addressing private anti-competitive practices that prevent or inhibit access by U.S. and other competitors to foreign markets, and that this be done by the U.S. government advocating an international fora that countries agree to take action against private anti-competitive practices that restrain market access by foreign competitors in ways that substantially lessen competition in the markets within that government's jurisdiction. We say that that should be done consistent with principles of national treatment and for most favored nation, and that a provision should be made for aggrieved parties to have fair, transparent, and impartial process for their complaints to be heard.

The substantive standard that we're suggesting is a well-known antitrust standard that's used in the Clayton Act in a number of provisions, most notably in the merger provision, Section 7 of the Clayton Act, and what we think it means is a meaningful reduction in competition. What would have to be shown in order for a practice to be prohibited would be a meaningful reduction in competition over what would have prevailed absent the restraint.

We think that would apply in the case of conduct that the U.S. antitrust laws regards as per se illegal, price-fixing, bid-rigging, market allocation and the like, and we think it would certainly give ground for an investigation and a possible rule of reason finding against vertical restraints that deny a truly superior product, or a truly low cost producer market access, when that restraint is adopted by a firm or firms that have market power, that represent a substantial part of the market, and have the ability on their own to restrict output and raise price.

We think that's a tough standard of proof but a fair one, and we think it's important for the U.S. to advocate today its view of antitrust, particularly its view of -- its consumer-welfare oriented view when there are other models out there, particularly the European Union model, which some say are not based on the same considerations, and have more of a component of fairness to particular competitors, and not more of the survival of the fittest mentality that we think leads to efficient markets.

We are not making any suggestions about, at this point, what international fora this issue should be addressed in, and we are not proposing any dispute settlement mechanism. International fora is something, and the Doha Round is something, that our two sections are presently considering, but don't have a position on at this point. With that, I pause and ask if there are any questions, and thank you.

CHAIRPERSON SURO-BRODIE: Thank you very much. The first question will be asked by the Department of Labor.

MR. KORANSKY: Good morning. Lester Koransky from the Labor Department. I guess two questions. The first question would be, these practices that you want us to negotiate, I guess, at some point. Would we have to change any of our domestic laws to -- if we -- once you start the negotiation, all the procedures that we're doing are basically legal in the U.S. you're proposing?

MR. BYOWITZ: I think the beauty of what we're proposing is we would not have to change any of our antitrust laws, and that's something that was of substantial concern because, as I indicated, we think we strike the right balance here, and if we were to go out and try to reach market access barriers in other countries that we wouldn't prohibit, there would be pressure on us to change that mix here, domestically.

MR. KORANSKY: I'm just curious, there's a -- I should say, U.S. subsidiaries of foreign companies, they're operating in the U.S., would you think that could be affected by this particular proposal. You know, specifically I'm thinking about the Japanese, when they have a number of like auto subsidiaries here, whether they're doing any type of activity, like sometimes maybe a keiretsu or something like that.

MR. BYOWITZ: Well, to same degree -- well, the U.S. subsidiaries of Japanese companies are subject to U.S. law today. It's what goes on abroad, and to the extent that one tries to get jurisdiction over those practices abroad, one often tries to get them through the U.S. subsidiaries. I don't know if that's responsive to your question.

MR. KORANSKY: But as far as you're concerned it would have no impact on foreign subsidiaries -- U.S. subsidiaries of foreign companies that are under our laws already?

MR. BYOWITZ: Yes.

MR. KORANSKY: Okay. Thank you.

CHAIRPERSON SURO-BRODIE: The next question is from the Department of Justice.

MS. PURCELL: Mr. Byowitz, your testimony and the report that you submitted, talks about how it's important that any approach we take be consistent with U.S. antitrust law. I was wondering if you could give some examples of the type of private conduct that we ought to avoid addressing in the trade context since it may not violate the U.S. antitrust laws.

MR. BYOWITZ: Well, I think our report speaks to a considerable degree about vertical restraints, which is where a lot of the action is in the private anti-competitive practices that restrict market access area. Certainly in the kereitsu-type of arrangements, although there is allegedly a little more to them than that.

The concern that we would have is that if a -- in a purely private situation, if a number of companies were to adopt similar distribution practices, and those distribution practices, from the standpoint of each individual one, appear to be efficiency enhancing, that would not be prohibited under the antitrust laws for at least two reasons I can think of. One, that there would be an absence of market power and the other that there would be a legitimate business justification for the conduct anyway.

The U.S. antitrust laws require substantial, as you know, proof of concerted action among -- if you're got parallel practices, parallel practices alone are not enough to make out a conspiracy, so you would need to have some evidence that a group of firms were doing this that had market power, or you would have to have some evidence -- you might have in a situation where somebody had less than 30 percent of a market let's say, you might still be able to find a problem, although it's very hard under U.S. antitrust law, but under those circumstances you're always looking at the efficiency-enhancing rationale but legitimate business justification, and our report indicates that we have a significant concern in not chilling the adoption of pro-competitive or efficiency-enhancing conduct.

MS. LISER: I just had a question more about where you think it would be best to try to address some of the kinds of practices you're talking about. Obviously these are hearings today regarding market access, this is not a tariff barrier. I don't know if you're suggesting that we, in the course the non-ag market access negotiations, look at this as one of the non-tariff barriers or whether your statement is really more suggesting that it be taking up in competition policy talks that may take place in Doha. I'm not really clear myself.

MR. BYOWITZ: Well, as I said, we did not take a position when we adopted this report, on the appropriate forum or fora. What we would -- and we're still not in agreement, we're working on what we think about that, there are certainly on the part of the antitrust bar, of which I'm a member, there is certainly significant concern about putting competition law into the WTO at all, and those issues have to be weighed, but what I would say is if there are -- what we're suggesting is that the principle that we've adopted inform your approaches in various areas, so that if it becomes clear that the negotiations are moving in a certain direction or what positions we would ask you or urge you to take, it would be consistent with this, that at the end of the day you not be looking for the kinds of things that others have suggested and that have been described in the report of result oriented tests. You know, if you don't get 20 percent of the market, then somehow or other that's a per se violation.

We don't believe in that, so we would ask that that competition policy inform your judgment, and in that regard, I would just add that there is a third class of restraints that we didn't deal with in this report also, which is what are called hybrid restraints. I know the ICPAC study that was done by the Department of Justice deals with them, and our report addresses them to some degree.

These are private restraints buttressed by government action, and in that area, we point out in our report that the antitrust laws are an ineffective remedy because of state action doctrine in the United States, and analogs of that doctrine
for an act of state have a compulsion doctrines outside, but that -- that is where, you know, government-imposed restraints is an area where the trade laws, you know, do apply in varying degrees, and trade -- you know, antitrust is not going to provide the answer for those restraints. Not alone, you still have to prosecute the private anti-competitive conduct, but if it's adopted by a government thereafter, that has to be gone after, you know, as a trade remedy, we think.

MS. LISER: Okay. Thank you.

CHAIRPERSON SURO-BRODIE: Thank you very much, gentlemen. The next witness is Robin Lanier, Executive Director, Consumer for World Trade.

MS. LANIER: Good morning. Thank you for having me. CWT's main objective in appearing before you today is to urge the United States to seek market access negotiations that benefit American consumers. We feel that it is extremely important to recognize that consumers are an important American constituency that currently bears the high cost of tariffs and who will benefit from tariff elimination or reductions.

Tariffs are taxes that, although technically paid at the customs borders by importers, are ultimately passed on to consumers in the form of higher prices. Although overall average tariffs on goods entering the United States have been reduced through numerous trade rounds to less than four percent, this national average masks very high tariff rates that continue to exist on finished consumer goods, generally and specifically on imports of shoes and clothing.

As a general matter, CWT urges the U.S. trade negotiators to give priority consideration in the Doha round to World Trade Organization -- of the World Trade Organization to tariff reductions on finished consumer goods that have tariffs higher than four percent. More particularly, CWT urges elimination or substantial reduction in tariffs of apparel and footwear.

While the United States has made some progress towards liberalizing in the sectors through gradual elimination of apparel quotas, and the negotiation or enactment of a series of trade agreements and trade preference programs, the fact remains that effective duty rates charges on shoes and clothing remain over ten percent, and duties on some products, principally those of most interest to working class American families, can range as high as 20 percent or more.

According to a recent study by the Progressive Policy Institute, imports of clothing and shoes represent 6.7 percent of all goods imported, but nearly $8.7 billion or 47 percent of U.S. tariffs collected. High tariffs on clothing and shoes, the basic necessities of life, also constitute one of the most regressive taxes that the United States poses on its own citizens. These hidden taxes fall heaviest on those consumers who can least afford to pay them, working families with children, who must devote a larger portion of their annual income to the purchase of these products. Moreover, as a general matters, tariffs on apparel made from man-made fibers which are more likely to make up the market basket of working families, are significantly higher than those imposed on high-end products, such as silk.

CWT firmly believes that any tariff reductions on footwear and wearing apparel will be passed on to consumers. Competition in the retail industry is evidenced by the fact that retailers traditionally show after-tax earnings of only two percent of sales. Many of the most successful retail chains make their profits on volume and not mark-up, so cutting prices to gain market shares is an important retail strategy, particularly for clothing and footwear sold in the mass market.

Indeed, over the past decade, while overall U.S. prices have slowly increased, apparel and footwear prices have actually declined. We have every reason to believe that any reduction in first costs will therefore immediately be passed on to the end-users, because of retail competition and consumer price sensitivity.

We fully recognize that the united States usually develops its trade negotiation objectives based on market access needs of our export industries. We urge you to take a different view when it comes to apparel and shoes. The issue at hand ought not to be exclusively export fairness or market access, but equally the fairness of imposing hidden taxes on those Americans least able to afford them.

We would urge that the larger interests of the United States is served by the elimination or significant reduction of these duties, especially since these duties apparently no longer protect significant American industry. Import penetration in apparel and footwear now stand at 90 and 98 percent respectively. Other domestic performance indicators including declining domestic production levels, and domestic employment, underscore this point. In fact, U.S. producers of these products are themselves moving productions off-shore and over the last few years have joined with retailers and consumers seeking tariff reductions.

It is true that makers of textiles have

sought to maintain high tariffs on wearing apparel. Textile makers seem to think that maintaining these high tariffs will serve to keep apparel production in the United States, but the track record seems to indicate otherwise.

Indeed, recent U.S. policy appears to support the accelerated departure of apparel and footwear production through the negotiation and enactment of trade agreements and trade preference programs that provide complete duty-free access to our markets for footwear or provide some limited access for wearing apparel made from U.S. fabrics. For this reason, U.S. high tariff rates and remaining quotas provide some advantages for the beneficiary countries of these agreements and programs.

While U.S. consumers also benefit form the reduced import prices for wearing apparel and footwear from these preferent partner countries, the benefit is very small in comparison to the benefit that could be achieved through multi-lateral negotiation to reduce tariffs on products from other parts of the world. The existence of these preference programs should not be used to avoid additional tariff reductions negotiated on a multi-lateral basis. These preference programs should be seen as one means to an end, not an end in themselves.

Choosing to eliminate or significantly reduce tariffs on a product specific -- excuse me, reduce tariffs on products of specific interest to consumers is not completely unprecedented. During the Uruguay Round, the United States took the bold step of agreeing to the complete elimination of toy tariffs. These tariffs no longer protected significant domestic production and the elimination of these duties provided a significant boon to American families.

Without question, the United States traded the elimination of these tariffs for other countries' reductions of specific interest to U.S. as part of zero-for-zero concession. In the Doha Round, the United States has the opportunity to do the same thing, and achieve a winning scenario for competitive U.S. export industries, as well as millions of American consumers.

We hope U.S. trade negotiators will keep in mind that the ultimate cost of trade barriers is borne by nearly 280 million American consumers, and that these Americans have much at stake in the results of this round. The Doha negotiations on market access provide an important opportunity for U.S. negotiators to achieve not only increased access to foreign markets for U.S. exporters, but also a more open and competitive U.S. market for U.S. consumers.

CWT stands ready to work with you on these important goals.

CHAIRPERSON SURO-BRODIE: Thank you, Ms. Lanier. The first question will be asked by USTR.

MS. LISER: Thank you very much for your statement. We were wondering whether or not your organization has worked with other consumer groups internationally, particularly in highly-protected markets.

MS. LANIER: We have had same conversations with consumer groups, but not in highly-protected markets, mostly with European consumer groups which by and large, support similar goals as our own. I'm not actually aware that there are many consumer groups in some of the least developed countries, because I'm not sure that they have much of a consumer market yet in those countries. My own personal view is that reducing worldwide tariffs everywhere helps to develop a consumer market in many places where it does not now exist.

MS. LISER: Thank you.

CHAIRPERSON SURO-BRODIE: The second question will be asked by the Department of Commerce.

MR. DUNN: In your statement, you indicate that over the past decade, while overall U.S. retail prices have increased, the prices for apparel and footwear have actually declined. I was wondering if you could expand on that and let us know what you think has contributed to this sort of opposite trends.

MS. LANIER: Well, I have sort of answered that question with a question just for the group. How many of you have actually shopped at a discount department store in the last ten years, and my guess is that you've probably shopped more at a discount department store in the last ten years than you did perhaps in the previous ten years. We have seen a trend in the retail industry of the dominance, the growing dominance of the mass market, those retailers that provide real quality at very low prices, and I think that has been one of the major trends driving down the price of all products, but in particular apparel and footwear, and many of these retailers are themselves direct importers, so they're not dealing a with middle man supplier as perhaps department stores are more likely to do, or brand name suppliers are more likely to do, and in those circumstances, because there is no middle man, those retailers are really very likely to pass the major portion of any tariff reduction directly to the consumer. This is the portion of the U.S. retail industry that really relies upon volume and not mark-up to make their profits, and I think that's evidenced by long-term trends in the retail industry where you see that their profits as a percent of sales remain very low, and we have every reason to believe will continue to remain very low because it's very, very competitive. Those particular types of retailers, of course, are very, very sensitive to price, and so being able to drop your price points and provide really extreme value is really a method for success in the marketplace.

CHAIRPERSON SURO-BRODIE: The next question will be by the Department of Labor.

MS. VALDES: Good morning, Ms. Lanier. Do you have any estimate on the number of domestic manufacturing jobs that could be created or lost if we decide to implement your proposal?

MS. LANIER: No, I do not have those estimates. We can try to get them for you in a separate filing.

CHAIRPERSON SURO-BRODIE: USTR?

MS. LISER: Yes, one question, sort of to get your thoughts on this. How would you weigh off the benefits to the types of consumers you were talking about, low income consumers with what we are told by certain sectors, that many of their workers are, in fact, low income people as well, so --

MS. LANIER: There is clearly a moral dilemma that you all face in the reality that these tariffs, particularly on shoes and clothing, are really affecting some of the very poorest Americans, American consumers, and by the same token you hear a lot about workers in the apparel sectors and footwear sectors.

My counter to that is that if we believed that the tariffs on these products were actually protecting footwear and apparel jobs, I think that would be a much deeper moral dilemma for you all, but I think the evidence really shows that these tariffs no longer -- you know, I think a previous witness for the footwear industry pointed out that they're irrelevant, that they are not protecting jobs, and that I think we need to further take a look at whether maintaining these tariffs at these very high rates are likely to continue to protect these jobs.

You've heard testimony today from apparel manufacturers who are themselves seeking reductions in apparel tariffs because they are increasingly moving their production offshore, and I don't think that any existing tariff barrier is going to stop that trend. The reality is that the price of these products overseas is considerably lower than we could possibly produce them in the United States.

Now, that does -- I mean, I am fully sympathetic to the workers who are now in those industries who are likely to lose their job over time, but I'm not sure the tariffs are going to keep those jobs in the United States, and we might do better to invest our money in retraining those workers for jobs in competitive industries on the export side.

MS. LISER: Thank you.

CHAIRPERSON SURO-BRODIE: Thank you, Ms. Lanier. For your follow-up information, it should be sent to G. Blue at USTR.gov.

MS. LANIER: We will do that. Thank you.

CHAIRPERSON SURO-BRODIE: The next witness is Mr. Frank Vargo, Vice President of the National Association of Manufacturers. Welcome Mr. Vargo.

MR. VARGO: Thank you. It's a great pleasure to be here this morning, and even after a couple of years, it feel strange to be on this side of the table rather than the other side. The NAM is most appreciative of the fact this hearing is being held. It's very important, particularly to non-agricultural market access, at a time when the U.S. is beginning to prepare its paper to table in Geneva. Now individual industries and associations will be testifying, so the NAM is just talking about manufacturing overall as well as talking on behalf of our zero tariff coalition, which Maureen Smith chairs, and when Maureen testifies this afternoon, I'm sure she'll say a little bit more of it as well.

You already have a copy of my statement. I just want to add to the statement that it was approved at the NAM board of directors last week, and is now the official position of the NAM representing 14,000 manufacturers, and substantially all manufacturing in the United States.

I have only three points to make this morning. First of all, we feel very strongly that the Doha Round cannot be considered a success, cannot be considered a success unless it includes deep and comprehensive cuts in industrial trade barriers. Second, we understand that achieving this objective will be extremely difficult, and third, we believe that the most successful way to achieve the objective is through what we might call a formula plus, concentrating on sectoral tariff negotiations, but also having in the background a formula. Let me just visit each of these three points briefly.

Certainly we all know that successful agricultural outcome is absolutely essential or this round is going nowhere and can't be a success. But in addition to agricultural and services, we must have substantial cuts in non-agricultural market barriers. You know, over 80 percent of America's experts are manufactured goods, while the agricultural community will export about 50 billion this year, manufacturers export close to $50 billion every month, and we face very substantial trade barriers overseas. Not so much in the form of tariffs with the industrial countries any more, but with the developing countries, the barriers are huge, with the tariff bindings averaging 20 percent to 40 percent and even more. Now, of course, our tariffs on industrial products or manufactures for the most part, with some exceptions, are down around one or two percent. So we don't have all that much leverage. But the developing countries, these are not inconsequential anymore. Some of them have very sophisticated manufacturing industries, and about 55 percent of our total trade deficit is with the developing countries, or at least with the non-OECD countries, if I can put it that way, leaving China's definition aside.

Now we know this is going to be very difficult, because we don't have much leverage, because we know that the abound rates for the developing countries are frequently twice or more what the applied rates are. So we're very pessimistic that a formula cut will give us any genuine market access, and I can tell you from the NAM's perspective certainly, an outcome that would simply bind existing applied rates is not acceptable, and even -- nor, of course, would it be acceptable to see that we had a round that simply diminished the difference between applied rates and bound rates. You know, these tariffs are very important to us, and we want them to come down in this round, rather than waiting until some future round which could put the actual reductions off, I don't know, 20 or 30 years or more.

It's also a difficult objective to achieve because it's clear that for many developing countries tariffs are an important source of revenue, and it's difficult for us to turn to them and say, you know, change your whole tax system to accommodate us. So, the barriers are certainly very serious, but the game is a very serious one, and as I said, we do face just enormous barriers that are retarding a broad range of American exports and manufactures.

So, as we look at this situation, it's clear to us that a sectoral approach, the sectoral tariff elimination or what used to be called zero-zero in the Uruguay Round, is the best way to go. It's also clear to us, particularly after having participated in the recent excellent visit for the ISAC visit to Geneva and Brussels, it's very clear that nobody would support only a sectoral negotiation. There's got to be a formula as well. Now, we would insist that the formula begin from applied rates, and we know that that's a very difficult objective to achieve as well, since negotiations typically have always been from bound rates.

Now, in -- why we believe a sectoral

tariff approach is the best? Because it's more flexible. Not all the countries have to participate, we just look for a critical mass, and that can be defined differently in terms of countries participating in different industry sectors. It doesn't have to be the same group of countries. The least developed countries, for example, could opt not to participate and this probably would not, in almost all cases, affect the necessity for a critical mass of countries, and in those instances in which going to zero is not possible, then there is the option for harmonizing it at a low level, although we are pressing for zero.

Now, we have 24 U.S. industry sectors that account for over $350 billion of American exports that are enthusiastic about this concept. We have spoken with the German industry, and while enthusiastic is an over-statement, this is something they're certainly willing to look at. We met with them just a couple of weeks ago, and are actually going to -- have agreed that the German Industry Association, the BDI and the NAM, will seek to have a joint paper with a joint position on this.

The paper the Japanese government has tabled already in Geneva, speaks favorably of a zero tariff approach on a sectoral basis.

The European Trade Association union UNISAY views this as an option and also is looking to work more closely with the American industry on the possibility of a joint position.

We are working with the Canadians as well, and will begin working with some of the Latin American industry associations. So we commend this as being a modality that must be promoted actively, and we do believe at the end of the day that to the extent that we are able to achieve real cuts in applied rates, it's going to be through this modality.

Let me just conclude with a brief word on non-tariff measures. These are extremely important as trade barriers, they're very difficult to get one's arms around, and there are many risks, of course, in opening up the TBT agreement, the Technical Barriers of Trade agreement, but there might be an opportunity for seeking clarification or interpretation that could ease some of the barriers that we face. Thank you very much.

CHAIRPERSON SURO-BRODIE: Thank you. The first question will be asked by the Commerce Department.

MR. DUNN: Good morning, Mr. Vargo. In your testimony you mention that the modality combination must include a request offer approach for industries whose complexities cannot be addressed appropriately by a formula approach. Can you let us know what those industries might be? Are they any of them possibly covered under Section 111? How broad are you talking?

MR. VARGO: I don't think it's all that broad, but I know, for example, that some of the auto industry feel that given their own tariff situation, that a formula cut would not be the right way to go, and we wanted to make it plain that we want to preserve the -- for industries that step forward and present a good case, that that modality not be rejected up front, but we don't see it as the main way to go. It's very complex.

MR. DUNN: Thank you.

CHAIRPERSON SURO-BRODIE: The next question will be asked by the Department of State.

MR. TORRANCE: Mr. Vargo, you made reference to the fact that developing countries claim that tariffs are a principal source of revenue, and I was just wondering what your views were on how we can handle this in our negotiations with them, what approach would be helpful, and say least disruptive to those countries.

MR. VARGO: That's another reason why we like the sectoral approach, the ability for countries to opt out. We will be looking and will be turning to some government agencies for assistance on this, for data on just how important customs revenues are for individual countries, and then we'll have a clearer idea then of where this is really a serious problem, and we are hopeful that for the most advanced developing countries, it is not that serious a problem, and that we will be able then to move forward with them on an approach in individual industry sectors, but for some countries, my guess is that, particularly for the least developed countries, tariff revenues are a very important source of overall customs revenues. But again, you know, generally speaking, you can take all the least developed countries, and they would probably add up to two or three percent of our trade, which is a sad statement in itself, but nonetheless, true.

CHAIRPERSON SURO-BRODIE: The next questino will be posed by USTR.

MS. LISER: Mr. Vargo, you suggest that taking an approach that would be based on having a critical mass in terms of the sectoral tariff elimination approach that you've suggested, we wondered what criteria would be used, or would you use, in determining whether critical mass had been reached.

MR. VARGO: The industries, and there are 24 of them, who have embraces this so far, have all decided that it would not be appropriate to lay out either a number of countries or a percent of trade, they didn't want to pick 80 percent or 90 percent. It could very well vary. They're looking to keep that totally open up front, and would urge the U.S. government to do the same.

MS. LISER: I had one other question. What is your response to those who seem to believe that a sectoral approach is the way that the U.S. sort of cherry-picks, it's only looking to liberalize where it has market interests, but not interested in pursuing things which would be of interest to other countries, and there seems to be a general view out there that a sectoral approach does in fact do that.

MS. VALDEZ: Well, there is that view, no question, and it is a serious obstacle that needs to be overcome. The best way to overcome it in our view is to make a plan that we are looking for other countries, including developing countries, to come forward and pose their sectors. That is also a reason why we have decided to support a formula approach as a background if one can come forward. We suggested a very ambitious one, which would be a 50 percent cut in applied rates across the board. Very difficult to achieve, but a worthy goal.

Certainly, I was surprised the extent to which there was a feeling that this was actually a ploy on the part of industry to protect certain American sectors and shield them from the negotiation, and we don't see it that way at all. We see embracing as many industry sectors as possible and we want the Europeans, the Japanese, the developing countries to come forward with their own, because otherwise it won't work.

And no matter how you slide this loaf of bread, what it all comes down to is how do you convince the more advanced developing countries, those in Latin America and in Southeast Asia in particular, who have sophisticated manufacturing industries, and very high tariffs, that it is in their interest to reduce those tariffs?

MS. LISER: And just one last question to follow up. What would you suggest that we do if in fact other countries propose sectors that are difficult for the U.S., or sensitive for the U.S., and they say, well, you're proposing that we make cuts in sectors that are difficult or sensitive for us, and so therefore do you have any thoughts about those who say that it might be the thing that would sink, in fact, being able to get any agreement on any sectors?

MR. VARGO: Not necessarily, and in fact, in some sensitive sectors, there is some discussion, and I'm not speaking on behalf of any individual sector, but in some sectors there has been some consideration that, you know, if everybody were to go to zero that might not be a bad thing. They would not want an approach in which they went to zero, and if there's others, maintain high barriers, of course.

MS. LISER: So the possibility then that we would have a whole series of sectors, including some that are sensitive for us, some that are sensitive for others, but with the possibility that in sensitive sectors, if everyone were prepared to go to zero, then somehow that would garner the support that we're talking about, both domestically and in other countries as well?

MR. VARGO: We start off looking at it that way. Of course, you have to look at a balance and see how it comes out.

MS. LISER: Okay. Thank you.

CHAIRPERSON SURO-BRODIE: The ITC?

MR. LEAHY: Yes, Mr. Vargo, you pointed out to us that low tariffs are not always nuisance tariffs. Has your group put together a list, or will they be putting together a list, of tariffs that are low but not nuisance?

MR. VARGO: No. We have a policy staying away from sector specific issues, but we will certainly encourage all of the industries who have so informed us, that they should step forward as soon as possible. But this was actually the most controversial part of our paper, when we circulated it, to members of our international accounting policy committee, and we were told in no uncertain terms that you know, we don't necessarily consider a low tariff a nuisance tariff, so that's why we worded our paper the way we did, with just highlighting that. But we will certainly go back to them and encourage them to let USTR, on behalf of the U.S. government, know as quickly as possible.

MR. LEAHY: Thank you.

CHAIRPERSON SURO-BRODIE: Thank you very

much, Mr. Vargo.

Our next witness is Julia Hughes, Vice President for International Trade and Government Relations of the U.S. Association of Importers of Textile and Apparel. Welcome.

MS. HUGHES: Thank you. Thanks for the opportunity to appear today. As I think you already know, our member companies strongly support trade liberalization, and have -- are strong supporters of the Doha development agenda. You know, since the beginning of this country, there's been special protection for the textile and apparel sector. Indeed, I often begin speeches with a quote from an early Secretary of the Treasury, Alexander Hamilton, talking about the temporary protection for this sector.

Now most people, unlike you all, would be surprised that there's been protection for that long, but the length of that special protection actually makes the accomplishments of the Uruguay Round even more impressive, and meaningful. For the first time, the negotiators from the U.S. and our trading partners, agreed that the internationally sanctioned system of special protection for textiles and apparel would be eliminated. We're close to that goal, it's almost two years now, and the quotas will be eliminated on December 31, 2004.

So as this hearing is we're looking at the agenda should be for this new round of negotiations, there are very few restrictions left on manufactured products, with the exception, as we've talked a lot today, about high tariffs on consumer products like apparel and footwear.

Now that the U.S. has recognized the importance of eliminating the special protection of quotas, it's time to turn to one of these remaining protectionist areas, and eliminate the high tariffs on apparel products. After all, as we looked at the data, and a lot of this is in my written testimony, the Uruguay Round process really heightened the disparity between tariff treatment for textiles and apparel and other industrial products, so that when we looked at the GATT study that showed the developed country tariffs on all industrial goods versus textiles and apparel in the post-Uruguay Round rates, the other industrial good rates are 3.8 percent on a trade weighted average, but for textiles and apparel 12.1 percent, so we still have a substantial disparity. That's why we're asking the Administration to support the inclusion of the textile and apparel sector in the zero-for-zero duty elimination.

This policy will help American consumers. These high duties serve as a regressive tax on the poorest families in America. The public policy study earlier this year by aggressor highlighted the fact that these duties unfairly target families and consumers with the lowest incomes.

This policy will also help with U.S. global economic policies. The high duties in these sectors mean that the highest tariffs are applied to the products made in the very poorest countries. Through tariff elimination for apparel products most likely to be supplied by developing countries, the Doha development agenda can address the inequity of the U.S. tariff system. After all, during 2001, the United States collected $331 million in tariffs on

$2.4 billion worth of imports from Bangladesh, while collecting almost the same amount of tariffs on $30 billion worth of products imported from France.

Finally, we believe this policy will also help to improve the credibility of the United States to take the mantle as the leader in the World Trade Organization. In the textile and apparel sectors, the U.S. begins the Doha negotiating process in a slightly difficult position. Many of our trading partners have been concerned about the slow implementation of the Uruguay Round agreements, major textile and apparel exporting countries pressed for minor improvements in the quota phase-out as part of the Doha ministerial.

The United Sates and the other countries that maintain quotas, Canada and the EU, did not agree to this proposal. However, the EU initiated a new program, the everything but arms initiative, and the Canadians announced a new program for preferential programs for the least developed countries.

But so far the United States has only proposed preferential programs for selected areas of the world, and based those programs predominantly on rules of origin that require the use of U.S. yarns and fabrics. We have no problem trying to help the U.S. manufacturers, but that is not a substitute for market access for the least developed countries. After all, U.S. tariffs on textile and apparel products are high even when compared with our developed country partners. In just one example where the United States has 28.2 percent tariffs on synthetic knit trousers for women and girls, the EU duty rate on comparable products is 12 percent, Japan's is 10.9 percent, and even Canada's is 18 percent, well below the U.S. rate.

As the negotiations move forward, it's essential that the United States show that we're willing to propose aggressive market opening agreements. We need to challenge the rest of the world to remove their barriers, not just match those the United States already has in place.

I'd like to conclude with just a few words about what it is that our member companies want to achieve. Our goal is for the textile and apparel sector to be a global business. International retailers and brand name label companies need to be able to sell their products all over the world without protectionist policies. We want to be able to manufacture a T-shirt in Honduras using U.S. yarns and fabrics, and match it up with a pair of cotton pants made in Turkey and sell that combination in stores in Washington, in Shanghai, in Paris, and in New Delhi.

We know it won't be easy to get out trading partners to agree to eliminate their tariffs or their non-tariff barriers, but we think we need to begin trying now. That means zero tariffs, no more crazy rules of origin that treat cotton pillow cases different than man-made fiber pillow cases, and no more restrictions on distribution systems or on new retail establishments, which are some of the favorite non-tariff barriers by our trading partners. So thank you for the opportunity to appear today and present our views, and I look forward to answering any questions.

CHAIRPERSON SURO-BRODIE: Thank you, Ms. Hughes. The first question will be asked by the Commerce Department.

MR. DUNN: Thank you. Good afternoon.

Your testimony touches on what you characterize as the regressive nature of the U.S. tariff structure with respect to textile and apparel products. I'm curious, has your organization done any studies, or do you have evidence that shows that previous U.S. tariff reductions in this area have been passed on to consumers?

MS. HUGHES: We haven't actually done studies that focused specifically on that, although we have looked at the overall tariff policies. It's been a little bit difficult to track because the tariff reductions in our sector, as was discussed earlier, have been really focused. During the Uruguay Round most of the major tariff reductions were either on products not made in the United States like the silk products, or they were made on products where the dominant trading partners were the European Union or some of our other developed country trading partners. However, I'm happy to go back and take a look at that and see if we could provide any information if the Committee would like that.

MR. DUNN: Thank you.

CHAIRPERSON SURO-BRODIE: Could you send that information to Gloria Blue?

MS. HUGHES: Exactly.

CHAIRPERSON SURO-BRODIE: Thank you. The next question is by the Department of Labor.

MR. KORANSKY: Good afternoon. Lester Koranzky from Labor. Just -- I think another research question is, has your organization done any studies about amount of jobs that would be created or eliminated if all these proposals did happen? Just curious about that. Thank you.

MS. HUGHES: I have to admit once again, we haven't done any studies that have focused on domestic employment in awhile, and what we have mainly looked at in the past is the shift that we see is that the jobs that would be created in the United States are going to be in the distribution area, in the marketing area, not in manufacturing areas. I know that we have some studies that are a little bit dusty, so we'll be happy to take a look at those and see if we could perhaps update that.

MR. KORANSKY: Thank you very much.

CHAIRPERSON SURO-BRODIE: The Department of State will ask the next question.

MR. TORRANCE: Yes. Do you have any idea what the production of apparel tariffs would have on countries with whom we have preference programs, such as the Caribbean Basin, AGOA, NAFTA, in comparison say to those imports for other countries, especially Asian countries?

MS. HUGHES: It's interesting, what we have found is that when we looked at Mexico, I would say that the elimination of the quotas as part of NAFTA, that definitely had a tremendous impact on driving business to Mexico, but then in some of the other preference programs which are pretty rigidly defined of what products qualify, it isn't really the duty advantage that always is driving the increase in business in the region, so that in the CBI region, and I know Steve mentioned this earlier, we see a lot of our member companies that are doing more business close to home for reasons of just in time delivery, and the development in the local industry based on the preference program and the assembly operations helps to give more workers who are more qualified to work on apparel products, but actually the duty preference programs aren't necessarily the driving force, so we have felt that we're not going to be undermining the U.S. policy that has been developed to help certain regions and certain countries, by eventually going for zero-for-zero.

What's more likely to create the disruption if we're not taking the whole world to zero-for-zero will be the quota elimination in 2005. There is no precedent for what will happen. I mean, we've had protection for so long, and we've had quotas since the sixties in place, so I think that's the major change that we see in our industry and that's why we're focused on let's move the whole world to the next part of negotiations. Let's start talking about duty elimination now because we're going to go through some tremendous changes in just a few years.

CHAIRPERSON SURO-BRODIE: We have an additional question by the ITC.

MR. LEAHY: Yes, Ms. Hughes. In your written testimony you talk about rules of origin, and the change that took place in the post-Uruguay Round era. Would an outcome that took us back to substantial transformation, would that be acceptable to your organization, or is there some other approach?

MS. HUGHES: Well, at this point, you know, whether we go back to substantial transformation or whether we go to simply the last substantial manufacturing process that is done, the lawyers may not totally agree with me, but in some ways it isn't necessarily which one we go to but that we go to a rule that is across the board, that we don't have the rule differ for different types of products, or for different fibers for different types of products, that we have a harmonized rule, and that we try to harmonize them internationally.

One of the biggest problems for our companies is the inability to logically make sure that you are living up to your legal requirements when the rules are different in different preference agreements, and the rules are different for different types of products, so we really want to harmonize, and the rules are different if you're manufacturing in

Honduras but you're shipping to the EU, and the rules are different if you're shipping to Canada so that's why -- I mean, we talked a bit and there is concern in the international negotiations because of what the U.S. did in the nineties. There's that point. But our real goal is, we need the international harmonization so that we can actually go back to -- let's talk about doing business as the barriers are going away with the quotas.

MS. LISER: Just one follow-up question. For those who have said to us that the barriers for textiles and apparel are higher both on the tariff and the non-tariff side in other countries, and that before we talk about what should be done on the U.S. end that we really need to get those countries to significantly reduce those barriers, perhaps even bringing them equal to our here, what does your organization say in response to that?

MS. HUGHES: I have to say that if we want to talk about a level playing field, then we think let's go for zero-for-zero, let's be aggressive and let's go for a truly level playing field. To say that the rest of the world that has a rate higher than ours should some into ours, but we have major countries that have rates lower than ours. I don't think that that makes a lot of sense, that the U.S. rates, which are high, should be the standard.

We would much rather say, you're right, let's challenge the developing country to eliminate their barriers, but the logical place to go is to zero barriers. The U.S. industries competitive, there are competitive sectors in many countries, and let's have real global competition instead of picking a mid-level point of for some reason the U.S. rates would be the best rates for the rest of the world. Does that mean Europe gets to increase their rates? I don't think so. I think it's really better if we go for zero-for-zero.

MS. LISER: Thank you.

CHAIRPERSON SURO-BRODIE: Thank you, Mr. Hughes. The next witness is Robert Heine, Chairman of the Market Access Team for the American Chemical -- Chemistry Council.

MR. HEINE: Thank you. Good afternoon.

My name is Bob Heine, and I'm Director of International Trade and Investment at DuPont. I al so serve as Chairman of the American chemistry Council's Market Access Team, and in that capacity I appear before you this morning to describe our market access proposal, which we urge be incorporated into the U.S. negotiating position on non-agricultural market access -- the non-agricultural market access portions of the Doha Development Agenda. The American Chemistry Council represents the leading companies engaged in the business of chemistry and over 90 percent of the productive capacity for basic industrial chemicals in the United States.

The ACC's goal in the Doha Development Agenda is the worldwide elimination of chemical tariffs in Harmonized Schedule chapters 28 through 39. The U.S. chemical industry today is facing an array of competitive challenges. Nevertheless, our industry is convinced that international trade, through increased access to export markets around the world, offers us opportunities for growth that will help return our sector to its robust economic performance.

Multilateral trade liberalization is a strategy for success for our sector, hence our interest in the Doha Development Agenda.

We also believe that eliminating chemical tariffs is a strategy for success for many other sectors. Chemicals are key basic inputs into nearly every area of production from agriculture to manufacturing, and we strongly believe that chemical tariff liberalization is a win-win opportunity that has direct and dynamic ripple effects across many areas of economic activity by allowing producers in a wide range of sectors to reduce production costs and increase competitiveness and productivity. These effects are perhaps even more applicable to small and medium-sized industries and in developing countries, which are especially heavily dependent ton outside suppliers to provide their manufacturing inputs. Cost reductions on these inputs can mean big savings for small companies and increased economic activity for developing countries.

The U.S. business of chemistry is a $460 billion enterprise and it's a key element in our country's economy. It's our nation's largest exporter, with over $80 billion in exports in 2001, accounting for ten cents out of every dollar of U.S. exports. These exports, however, have gone largely to very mature economies, mostly in Europe and Asia. Developing countries, on the other hand, have a per capita chemical consumption of only one-sixth that of the U.S., and they represent a significant potential growth market for the U.S. chemical industry. Unfortunately, these developing country markets have some of the very highest average tariff rates around on chemicals.

The U.S. chemical industry was subject to tariffs of almost $4 billion on its export shipments in 2001, and while that represents an average tariff weighted -- average trade-weighted tariff for our industry of only 4.9 percent, the attached charts on my submission indicate the tariff rates and tariff payments on chemicals among U.S. trading partners vary from an average of a little over one percent to the EU to over 63 percent for India.

Access to new and expanding foreign

markets, especially in developing countries, is essential for the continued growth and competitiveness of the U.S. chemical industry. for this reason, the ACC has long been a strong supporter of multilateral trade liberalization through the WTO. The Doha Development Agenda provides a timely opportunity to address the new market access challenges for this industry with the achievement of -- with the elimination of chemical tariffs worldwide.

ACC provided a detailed explanation of our tariff eliminating proposal in a submission to this committee, to the Trade Policy Staff Committee on May 1, 2002. While I don't want to repeat all the details here today, I'd like to stress the major elements: broad country coverage, flexibility in staging, and addressing non-tariff barriers.

On broad country coverage, we recognize that traditionally tariff offers have been made unilaterally by individual WTO members, and are applied on an MFN basis. We are proposing the elimination of chemical tariffs be part of the WTO's single undertaking. As explained above, there is a wide range of benefits to many sectors and countries form the elimination of chemical tariffs, and we feel that the Doha Development Agenda will be enhanced by such a broad proposal.

ON flexibility, to allow for broad participation in chemical tariff elimination, the ACC supports the maximum flexibility in staging in order to accommodate developing countries, which may need to use asymmetrical staging approaches. We recognize that more time is often needed for some producers to adjust to the reduction of high tariffs, and we're willing to accept different stating for each member's chemical tariff schedule to ensure complete chemical product coverage and the eventual elimination of all chemical tariffs.

At the same time, the ACC insists that staging should result in progressive tariff reductions and avoid tariff plateaus with sharp drops at the end of the staging period. Moreover, tariff elimination should be front-loaded, so that all high-value chemical trade is not shielded from liberalization until the final period of the tariff elimination schedule.

In our May submission, the ACC offered an 80-15-5 formula, which is outline in Attachment 2, as one of m any possible formulations that could achieve our goal of chemical tariff elimination.

On addressing non-tariff measures, we believe that in order for our tariff elimination proposal to be meaningful, and to result in a -- and to realize the dynamic effects of such liberalization, it's absolutely essential to address non-tariff measures affecting chemical products. Examples of non-tariff measures that are of concern to the chemical industry include, but are not limited to, import licensing, quotas, trigger price mechanisms and discriminatory standards.

The ACC is in the process of identifying, on a specific product basis, wherever possible, the non-tariff measures that affect the trade in which our member companies are engaged. We will keep the U.S. market access negotiators informed of the results of this effort.

AS a final note, I would like to

underscore that chemical tariff elimination is an international goal that is supported by a group of associations that are banded together and are called the International Council of Chemical Associations, or the ICCA, whose member associations represent the chemical industries of the U.S., Europe, Canada, Mexico, Argentina, Brazil, Uruguay, Japan, Australia, and New Zealand. We are hopeful that this goal can be achieved in the current round of WTO negotiations.

On behalf of the ACC, I appreciate the opportunity to present these views, and I would be happy to answer any questions you may have.

CHAIRPERSON SURO-BRODIE: Thank you, Mr. Heine. The first question will be posed by USTR.

MS. LISER: Just a question regarding the -- you mentioned that a number of the developing countries still had very high tariffs in the chemical sector. On the other hand you also have a focus in your proposal on tariffs below five percent. What would you say would be more important in terms of the amount of trade that would be covered between those two, addressing the very high tariffs in the developing countries, and eliminating the low tariffs below five percent, and what would you say about an approach that would try to link the two, that those who had the very low tariffs on chemicals, not necessarily eliminate them right away until some movement was shown or progress shown on the higher tariffs?

MR. HEINE: It's -- I think we need to focus on both. If you look at where the money is, the bulk of the tariffs -- the bulk of the tariff costs follow the bulk of the trade, which tend to be countries with reasonably low tariffs, and clearly there are savings to be found there. Unfortunately, the markets in those economies are not growing terribly rapidly for our products.

Chemical growth tends to lag GNP growth in developed countries, and so our industry's growing slower than the GNP in Europe, Japan and the United States. Chemical growth grows much faster than GNP in developing countries, and yet it's those very developing countries that have the very high tariff rates that essentially prevent trade in chemicals, and because we are such a basic industry to manufacturing, we feel that it's vitally important for these developing countries to address their high chemical tariffs. Until they do, the cost of making virtually anything in those economies is going to be disproportionately high, because their input costs are going to be substantially higher than they would be for any country that they would hope to try to compete with.

In terms of trying to stage the process so that we delay the tariff -- the elimination of very low tariffs until we get some progress on high tariffs, it would be nice to be able to have our cake and eat it too. Elimination of nuisance tariffs clearly would save us a substantial amount of money, but it cannot, as I tried to point out in my earlier comments, be a substitute for the ultimate elimination of tariffs across the board.

We're prepared to be quite flexible on staging, but the developing countries must address their high tariffs on chemicals.

MS. LISER: So both are important but

they're not a trade-off for each other?

MR. HEINE: Exactly.

MS. LISER: Thank you.

CHAIRPERSON SURO-BRODIE: The next question by the Department of Commerce.

MR. DUNN: Thank you. You've put together an elimination proposal that takes an 80-15-5 approach, and you've also expressed your willingness to be flexible with developing countries staging, do you see that as following the same 80-15-5 approach and changing the years, or mixing up the percentages within?

MR. HEINE: The 80-15-5 approach should allow developing countries the flexibility they need, because it would allow them to put different -- in other words, we're not saying that the same 80 percent has to be in front-loaded for every country. Different countries would have different chemical line items in their 80-15-5 approach.

In fact when you look at the chemical tariff schedules for most countries, for many countries they're rates are already zero for an enormous number of line items, and so they should really have virtually no trouble at all to meet the first set of goals in the 80 percent range of that, and by allowing them to stage the other reductions, I think hopefully they would have the flexibility to join in this comprehensive approach.

MR. DUNN: Just a quick follow-up. Are there sectors of the American chemical industry that you think would seek prolonged staging or pretty much moving lock step.

MR. HEINE: I would imagine that there would be sectors of the industry that would like to be in the final stage, but we have not addressed that in our submission. We would leave that to the individual company members to alert you to which line items they would like to hold off on. But that said, we also don't want the reductions to be delayed. We want progress to be made. We're talking progress to be made continuously. We were talking not in terms of all the progress being delayed until certain stages, but that the staging be continuous so that you had a variety of glide paths all leading down to zero, but some of those glide paths would come down by 2010, others would take until 2015, and finally 2020, but for all of those categories, reductions would be continuous along the time schedule.

MS. LISER: And the fact that every country would able to choose which tariff lines it put in in which stage, is not a concern, the fact that, I guess, everyone ends up at zero by 2020 would balance off against the fact that you may not have comparable cuts in comparable areas among -- across all the countries?

MR. HEINE: Exactly. Exactly. We'd be willing to see that kind of diversity with the understanding that ultimately everyone goes to zero.

MS. LISER: Okay. Thank you.

CHAIRPERSON SURO-BRODIE: The last question by the Department of Labor.

MR. KORANSKY: I just have a couple of quick questions. First one, I guess in your testimony you mentioned that you were working on identifying non-tariff barriers, and how it's affecting your companies, and wondering when that would be available, the lists, if you could provide the government maybe?

MR. HEINE: We will get it to you as soon as we can. One of the non-tariff barriers that we have identified, through the process of the chemical dialogue within the APEC process, is the potential trade distorting effects of the EU white paper. So these are essentially regulatory items that have particularly disproportionate effects on trade and chemicals.

MR. KORANSKY: The other question is, a couple of other people have testified today about, if you could provide us like with the amount of jobs you think that could be created when the barriers worldwide were coming down would really be helpful, for analysis.

MR. HEINE: We would be happy to do that.

CHAIRPERSON SURO-BRODIE: If you could send that study to Gloria Blue, that would be a great help.

MR. HEINE: Thank you.

CHAIRPERSON SURO-BRODIE: Thank you very much, Mr. Heine.

MR. HEINE: You're welcome.

CHAIRPERSON SURO-BRODIE: Our next witness is Jane Earley of the National Fisheries Institute.

MS. EARLEY: Hi. Good morning. I'm aware that I'm sitting between you and lunch, and I'll try and be brief.

The National Fisheries Institute is a trade association that represents companies in the U.S. fish and seafood industry located all over the U.S. We are a water to table organization, with -- that includes vessel operators, fish farmers and everyone who supplies them, processors, importers, exporters, distributors, retailers and restaurants.

We previously submitted to the Office of the U.S. Trade Representative on April 30th, our summary of general concerns and negotiating objectives and on August 20th we also submitted some specific tariff objectives and concerns about the negotiating process to date.

These remarks also address some of those, and also modalities of tariff and non-tariff issues in greater specificity, and also address the issue of fishery subsidies currently taking place in the rules committee.

Fish and seafood products are among the most heavily traded commodities in the world, and there is increased worldwide attention to this resource. The U.S. is a net importer, and those statistics have increased rather dramatically in recent years. However, several of our fisheries are important exporters, and they provide important benefits in terms of revenue and jobs to the industry, particularly in somewhat depressed rural areas. Even though the U.S. has low tariffs, processing and transshipment in or through countries that do have high tariffs mean increased costs for U.S. consumers, distorted trade in the sector, and substantial transport and quality problems. U.S. seafood consumption is rising, as is the ratio of U.S. imports to exports, and a level playing field will, in the long run, benefit all of the players in this sector. This is a sector where trade has to be economically viable as well as environmentally sustainable.

The Doha Development Agenda is an

important opportunity to address these tariff and non-tariff issues, and we think the modalities it chooses will be very important to the prospects for success.

The National Fisheries institute strongly supports a sectoral approach to liberalization of trade in the sector. Fish and seafood products account for a significant share of export earnings for developing countries, and both the industry and the resources will benefit from a more transparent and less distorted market regime. Additionally, we think that a sectoral approach will best realize the benefits of reciprocal tariff elimination, which would be a necessary precondition for the removal of our already low tariffs.

Few sectors, we think, are more deserving of sectoral treatment in this round than the fish and seafood products sector. A sectoral approach was tried, and failed in the Uruguay Round, with the result that average tariff reductions in the sector in the round were lower than for other industrial products. The sector is also characterized by some very high bound and applied tariff rates, particularly in developing countries, and high tariffs in some developed countries for some products, particular process products. We also have some sensitive tariffs, for which we would want special consideration, however, we would support reduction or elimination of them if reciprocity is fully achieved.

Now, in 1998, APEC economies approved a sectoral agreement in the fish and seafood products sector. It would have reduced tariffs to zero by 2009. This agreement was part of the Accelerated Tariff Liberalization proposal introduced into the 1999 Seattle WTO Ministerial meeting. We think it could serve as the basis for a Doha result. Additionally, subsidies in this sector are currently under discussion in the rules committee pursuant to the Doha Ministerial Mandate, and therefore we think it is quite apparent that the sector experiences significant trade distortion and that it should be addressed on a sectoral basis.

Therefore, we support the approach to modalities taken by the Zero Tariff Coalition. We believe that these should employ several approaches, no single approach is best for al industries, but we think that this should include provision for sectoral tariff elimination wherever there is a critical mass of support to do so, and we look to the APEC and ATL initiatives as evidence of an emerging critical mass, and think that a sectoral approach should be applied as soon as possible, possibly prior to the conclusion of the Round.

Now, in the event that there is no consensus to do this, we would support a formula approach to reduce all tariffs in the sector by a percentage, but bound rates in this sector are very high in some countries and therefore, we would advocate aggressive reductions from applied rates, if possible, to get meaningful reductions. We have attached to our testimony a chart that has some of the bound rates on it in the sector.

We are very concerned about the proliferation of non-tariff barriers in the sector, and we would like to see non-tariff barriers both quantified and addressed in this exercise. We can give you several examples of them, things from --

ranging from nomenclature regulations like those the EU maintains on sardines, to Japan's quotas on fish and seafood products. We think these things can be addressed, and should be addressed, via existing WTO rules so that present texts don't need to be reopened, and that a request-offer procedure could be the basis for this negotiation.

And finally, we would like to address the subsidies issue. This discussion is now taking place in the rules committee. We think this will be a very complex and sensitive discussion, and if the right approach is taken, it could yield very positive results. However, we would like to proceed with caution. Our fishery programs have a legitimate role in addressing fundamental needs of enterprises, often small enterprises, in this ery risk-challenged sector.

Therefore, we urge that the WTO work focus primarily on those subsidies that have a direct effect on promoting overcapacity. We would like the WTO first to identify those subsidies, then once identified, we would urge that the WTO agreement to reduce or eliminate them be based on a quantifiable methodology. This approach would address the overall magnitude of subsidies to the sector provided by a handful of countries.

We also urge that an ultimate agreement explicitly recognize that assistance to the fishing sector that's aimed at promoting capacity closure has to be retained. We would suggest that like capacity reduction programs in other sectors, it has to be carefully circumscribed, specifically focused on capacity reduction, and also facilitate worker adjustment and cover other incidental social and environmental costs.

In the subsidies' effort, we believe that it is essential that the WTO find ways to cooperate with the food and agriculture organization of the U.N. The fisheries sector is very small in terms of net revenue, but it is very complex and diverse, and FAO has the acknowledged expertise necessary to identify overcapacity in this sector. At present, FAO reports in terms of fisheries that only 18 percent of global fisheries are over-exploited, about ten percent depleted, and many of these are slowly recovering.

And finally, we would like to thank you for the opportunity to testify. We appreciate the responsiveness of USTR to date to our concerns, and we're aware that the trade agenda is a very full one, but we hope to work closely with you in the coming months to fashion a modalities approach and to achieve real tariff reduction in the sector.

We'll be supplying other material to you. In particular, some industry subsector profiles that will illustrate some of our non-tariff barriers and our tariff concerns. Thank you.

CHAIRPERSON SURO-BRODIE: Thanks you, Ms. Earley. The first question will be asked by the Department of State.

MR. TORRANCE: Yes, Ms. Earley. Some WTO members have suggested that the fisheries sector should be looked at separately and that tariff reductions should take into consideration the stock of specific fish subsidies. How would you respond to this? Excuse me, the stock of specific fish species.

MS. EARLEY: There hasn't been any broad-based study of the environmental effects of tariff reduction in this sector. However, we would expect that should such a study be done, its conclusions would probably be similar to the APEC study done on the forestry sector. That study found that there would be some disadvantages and some advantages to the resource, but that overall the effects would probably balance out. We suspect that the same sorts of results would be attained here, but as I said, no specific study has been done.

CHAIRPERSON SURO-BRODIE: Next question is by the Department of Labor.

MR. KORANSKY: Good afternoon. Just a couple of quick questions which I asked other people before. If you could find some employment data, the impact of your proposal, will it be positive or negative toward workers, and also I guess include, with costs involved, is -- you know, if you eliminate barriers in the U.S. how much that affect prices and how much would benefit the consumer in the U.S. with your proposal? Thank you.

MS. EARLEY: We'll be happy to try and provide that data.

CHAIRPERSON SURO-BRODIE: The last question, USTR.

MS. LISER: Hi, how are you. We were wondering, what is the ideal percentage that you referred to in your paper in terms of a formula approach for the fisheries sector, and how would it differ if the negotiations ended up starting from bound rates, but we achieve consensus to eliminate fish tariffs at the end of the day?

MS. EARLEY: Well, first, elimination of fish tariffs at the end of the day is a very good objective, and we would approve of that regardless of how it's done. We think that a sectoral approach would be the most obvious one to use since it's already gotten support from many developing countries. Now, going down from bound rates, we're talking about going down from some 80 and 90 percent rates, so it would have to be awfully ambitious, and we think that's probably a more difficult route to take.

MS. LISER: And the ideal percentage that you would propose if there were a formula-based approach to the fisheries sector? Do you have any --

MS. EARLEY: Well, if the ultimate objective is zero, I'd suggest probably if one were to do it in several troches, that the first cut would have to be at least 50 percent.

MS. LISER: Okay, thank you.

CHAIRPERSON SURO-BRODIE: Thank you, Ms. Earley. The next witness is Tim Richards from General Electric, who will be testifying on behalf of the National Electrical Manufacturers Association.

MR. RICHARDS: Thank you very much. It's a pleasure to be here. A pleasure to be representing the National Electrical Manufacturers Association, which represents the interests of U.S. electrical industry manufacturers, and NEMA members have annual sales which exceed $100 billion in value. NEMA members, the vast majority of whom are small-to-medium sized businesses, very much want to increase their international sales, and for that reason they strongly support trade liberalization in the Doha Development Agenda. NEMA has five priorities for this WTO negotiating round, and these are quickly, tariff elimination, energy services liberalization, government procurement, and particularly the issue of transparency in government procurement, technical barriers to trade, and finally, the limitation of the use of mutual recognition agreements to only appropriate situations.

I'd like to go through each of these five areas in slightly more detail, and of course, our written submission provides still further detail on each of these areas.

First, with regard to tariff elimination, the worldwide elimination of tariffs o electrical products, including medical equipment, is a basic NEMA goal. We therefore urge the U.S. to pursue tariff elimination for electrical products in all fora, including the Doha Agenda. WTO members should agree to eliminate tariffs on electrical products as soon as possible, preferably on an early provisional basis that can then later be bound into the new round's final concluding agreement. Considerable work has already been done on electrical goods, on energy products, on medical equipment, on environmental products, in other fora, and at other times, and NEMA supports tariff elimination in all of these sectors, all of which include NEMA products, and we're working to build support for our international counterparts for this objective.

With regard to medical equipment in particular, there was a Uruguay Round zero-for-zero agreement to eliminate tariffs and as a result of that agreement, world trade in these products has increased dramatically, and U.S. exports of these products have increased dramatically, but unfortunately, many countries did not sign on to that Uruguay Round agreement, and moreover, some critical medical device parts and components were not included in the agreement. We therefore, support both product and country expansion of the coverage of the medical device agreement in the course of these negotiations.

NEMA further urges the U.S. to push for completion of the second phase of the Information Technology Agreement, the ITA-2, which would eliminate tariffs on a wide range of IT items, including some NEMA products, and we support continued efforts by U.S. officials to expand the membership of the existing ITA. This said, we also recognize that U.S. negotiators must seek tariff elimination for these items via other Doha Development Agenda avenues to the extent that those avenues are separate and more appropriate under the conditions prevailing.

Second, energy services liberalization is a major priority for NEMA. If you look back to the Uruguay Round results, very few energy services commitments were taken under the GATS agreement. This is largely because the energy sector at that time was made up primarily of state-owned monopolies, but the structure of the industry worldwide has changed dramatically in the intervening years, and since the end of the Uruguay Round, we see privatization and the introduction of competition as, in fact, the prevailing more of industry structure in the energy sector.

Many NEMA members are active and increasing providers of energy services in markets that were essentially created by the privatization and the introduction of competition in world markets. This liberalization, which is good for utilities, is also good for our manufacturers, U.S. service providers, and users of electricity, and we look forward to continued efforts from the Bush Administration to secure commitments from our trading partners in this crucial area.

Third, is the area of government procurement. NEMA supports the conclusion as soon as possible of a universally-subscribed agreement on transparency, openness and due process in government procurement, as proposed by the United States in the WTO working group on government procurement. We think that this agreement can be concluded rapidly. Tremendous amounts of work have already been done on the subject in that WTO working group, and we believe that the U.S. proposals that were submitted way back at the time of the Seattle Ministerial can form the basis of an agreement that can be concluded very rapidly, and there is no objection to the fundamental value of a transparency agreement in government procurement, and moreover, it would establish the precedent of one form of discipline that would apply to all WTO members in the otherwise only spottilycovered area of government procurement.

NEMA also supports expanded market access in government procurement through expanded participation in the government procurement agreement. But it's important to note that we don't see that as something that has to hold up progress on the transparency agreement. You can do the transparency agreement first and then move on and work on market access issues.

Fourth, in the area of technical barriers to trade, this is a fundamental area of NEMA competence and leadership, and NEMA supports the WTO TBT Agreement, and we believe that all countries should implement to the fullest extent the obligations outline there. At the same time, the U.S. government must continue working to dispel the misinterpretation that the use of the term international standards in the TBT Agreement applies only to certain international organizations, such as the International Electrotechnical Commission, the International Standards Organization, and International Telecommunications Union. An interpretation should also include wide-used norms such as some other North America standards and safety installation practices that meet TBT guidelines. This misinterpretation can be disadvantageous to U.S. businesses if it's allowed to take any further route, and it affects our ability to sell, of course, into international markets.

Fifth is NEMA's concern about excessive use of mutual recognition agreements. In NEMA's view, the use of government-to-government MRAs, mutual recognition agreements, should be limited and considered only as an alternative for conformity assessment needs when applicable to federally regulated products such as medical devices. MRAs ae not the answer to conformity assessment needs in non-regulated areas.

Finally, NEMA recognizes the progress on international trade must continue on many fronts. We support continued progress on WTO accession, and we hope for still greater progress in bilateral negotiation with WTO accession candidates, such as Saudi Arabia and Russia, contingent upon suitable reforms in many areas, including standards and TBT measures.

We also support the Administration's plan to pursue regional and bilateral free trade agreements. In our view, initiatives such as the free trade area of the Americas, and subregional and bilateral FTAs serve to spur, rather than block, overall progress in the WTO.

Of course, all of our comments about new objectives in international trade are founded on the understanding that these new rules and existing rules will be observed. The U.S. government needs to be vigilant in making sure that countries live up to their commitments, and for that reason we support funding which would allow increases in staff for the Executive Branch to better allow it to more effectively negotiate, monitor and enforce trade agreements.

In conclusion, the Doha Development Round offers tremendous opportunities to increase U.S. and world economic growth in the electrical sector through expanded trade. We hope that the Administration will aggressively pursue the objectives that we have identified, and we look forward to working with the Administration to support those efforts. Thank you very much.

CHAIRPERSON SURO-BRODIE: Thank you very much, Mr. Richards. The first question will be posed by the Department of Commerce.

MR. DUNN: Good afternoon, Mr. Richards. You expressed your organization's interest in expanding participation in the medical equipment zero-for-zero. I wonder if you could indicate now, or provide us later, with a list of what you might consider priority countries in that area. You had also mentioned that the current agreement comes up short with respect to parts and components. I'm wondering, is that a leftover problem or have there been advances in the technology over the past several years that have been such that it's just leaving out more and more items.

MR. RICHARDS: Let me start with the second part of your question, Mr. Dunn. I actually don't know the negotiating history of that. I think that most likely the parts and components were not included because negotiators were seeking a balanced package in terms of value of trade. But the tariffs are extremely low on some of these parts and components in the United States. I think the largest tariff category for medical equipment parts has a .9 percent tariff level, so this is truly not in any way a protective tariff, and yet the volume of trade is rather substantial, so it does give the United States a reasonable negotiating chip that could be put into play and in order to attract others to participate in an expanded medical device zero-for-zero.

We could look into the history of why it was not included, but I've asked some people and have not yet been able to find anyone with the corporate memory of exactly what happened.

As far as countries to included, I would prefer not to specify any individual country as absolutely essential, but we are looking at an overall package that will substantially expand participation in the medical device zero-for-zero and that means that you have to have many of the major developing countries that did not participate the first time around.

CHAIRPERSON SURO-BRODIE: The next question by USTR.

MS. LISER: We were wondering to what extent you believe or see that SMEs will benefit from a zero-to-zero agreement in this sector as opposed to your larger members, and then secondly, whether or not you see any danger in domestic consumption shifting from the SMEs to off shore?

MR. RICHARDS: Well, what we can look at is we can look at the experience that has been gained under the existing medical equipment zero-for-zero and you can also look at the experience under the NAFTA for this sector, and in both cases, SMEs have been major beneficiaries, both as direct exporters and as suppliers of parts and components to larger companies which then actually carry out the exports.

The U.S. trade balance in our sector has improved dramatically during the course of the time since the Uruguay Round medical zero-for-zero was concluded, and I don't have statistics on exactly how much of the exports were by SMEs, but the majority of

NEMA members are in fact SMEs, and we're confident that they are major beneficiaries of this initiative.

CHAIRPERSON SURO-BRODIE: Department of Labor.

MR. KORANSKY: Good afternoon. Just I guess one quick question is, your proposal, I assume, will increase the amount of export. We'd like to have some estimate and maybe provide us how much export you expect to increase and also how many jobs could potentially be created from that proposal. Thank you.

MR. RICHARDS: We will get back to you on that. We didn't come with specific estimates, but in the course of previous ITC testimony, we have taken a look at some of the statistics, and perhaps we can give you some general idea of what we would anticipate.

MR. KORANSKY: Thank you.

CHAIRPERSON SURO-BRODIE: If you could send it to Gloria Blue electronically, that would be a big help.

MR. RICHARDS: Okay, we will do that.

CHAIRPERSON SURO-BRODIE: Thank you very much, Mr. Richards.

MR. RICHARDS: Thank you all very much.

CHAIRPERSON SURO-BRODIE: Our last witness of the morning is Angela Marshall Hofmann, Director of International Trade and National Government Relations of Wal-Mart Stores. Welcome.

MS. HOFMANN: Good morning. On behalf of Wal-Mart Stores, Incorporated, I would like to thank you for the opportunity to share our views about market access in the Doha Development Round of the World Trade Organization.

As the world's largest retailer and employing 1.3 million associates worldwide, Wal-Mart, which is located in the United States, Puerto Rico and eight countries is vitally interested in the expansion of market development opportunities. In particular, our ability to deliver every day, low priced EDLP products to our customers is contingent upon our suppliers, as well as ourselves, having fair market access in countries in which we do business. Accordingly, the rules governing international trade in goods and agricultural products continue to grow in importance as the retail industry strives to provide high quality, affordable agricultural and household products to our American and global consumers.

Wal-Mart views the Doha Development Round as a major opportunity to eliminate trade barriers in goods that limit selection and artificially inflate consumer prices. Tariff barriers are a particular concern, since tariffs represent a disproportional tax on business and consumers. In some cases, such tariff barriers place Wal-Mart's suppliers at such a disadvantage that offering certain products is simply impracticable. Quotas have similar economic effects.

A number of sectors of great importance to our business are subject to the highest trade barriers. These sectors include textiles, apparel, footwear, leather goods and a wide range of food products. Wal-Mart believes that the U.S. government should seek steep reductions -- pardon me, steep cuts in tariffs in these sectors from U.S. trading partners. In addition, U.S. negotiators should seek steep reductions in tariffs on pharmaceutical products, cosmetics, and toys. In exchange, the U.S. should be willing to cut our own tariffs in all of these sectors.

With respect to quotas on textiles and apparel already scheduled for elimination, Wal-Mart urges the U.S. to remain firm in its commitment to fully implement the Uruguay Round Agreement on Textiles and Clothing. However, it is critical that the U.S. does not substitute these quotas with other non-tariff barriers or other trade actions that could result in the filing of an accelerated number of frivolous dumping cases.

Concerning agriculture, Wal-Mart supports our suppliers' efforts to eliminate tariff rate quotas on agricultural goods, including all processed food products. This includes the elimination of market distorting export and domestic subsidies as well as sanitary and phytosanitary barriers.

In terms of staging, Wal-Mart encourages U.S. negotiators to seek rapid staging of tariff cuts and quota elimination so that the beneficial effects are felt throughout the economy as soon as possible.

Steps should be taken to ensure that countries retain preferential access to the U.S. market that they currently enjoy through programs such as the Generalized System of Preferences, the African Growth and Opportunity Act, the Caribbean Basin Trade Partnership Act, and the Andean Trade Preference and Drug Eradication Act.

With respect to nuisance tariffs, Wal-Mart would request that U.S. negotiators seek the elimination of all nuisance tariffs, that is, tariffs at or below three percent. These include everyday household products such as fans, stainless steel cookware, dog accessories, clocks and radios.

Rules of origin. Inconsistent and conflicting rules of origin place an undue burden on the retail industry in the U.S. Wal-Mart urges U.S. negotiators to seek opportunities to ensure simple, easily administered rules of origin which allow for local content and for the use of inputs from developing countries. The U.S. should also be willing to offer corresponding changes to the U.S. rules of origin to ensure that restrictive rules of origin are not used as barriers to trade.

Finally, with respect to modalities, Wal-Mart favors accelerated zero-for-zero initiatives wherever possible, particularly in consumer goods, including footwear and electronics. At the same time, we support a combined approach depending on the needs of our suppliers.

In conclusion, Wal-Mart has been cited as a key driver in the U.S. economy. This growth may be attributed to a rapid expansion of Wal-Mart's international division where just as in our U.S. stores, our every day, low price strategy is a primary ingredient to our success. This formula only works in countries where market access is open and transparent. As such, we urge this Administration to take all steps necessary to ensure the rapid reduction of tariffs and the expansion of free trade, the element that is so elemental to our success in contributing to the economic growth of the United States.

Thank you for the opportunity to share our views.

CHAIRPERSON SURO-BRODIE: Thank you, Ms.

Marshall. The first question will be posed by USTR.

MS. LISER: Thank you. Ms. Marshall, you mentioned in your testimony that we should seek the elimination of nuisance tariffs which you describe as tariffs at three percent or below, and we were just wondering from your industry's perspective, does the three percent figure have a particular significance?

MS. HOFMANN: There are several products that are sort of every day household goods that fall in or about at the three percent. It could be three percent, it could be five percent, but these are things that typically a consumer would buy on an every-day basis, the added cost of which is pretty much marginal with the three percent. They should be eliminated.

CHAIRPERSON SURO-BRODIE: The next question will be posed by the ITC.

MR. LEAHY: Thank you. Question, rules of origin. You made a reference to your rules of origin, and in an earlier witness we had talked a bit about what your -- they would really be seeking. This was in the case of importers of textile and apparel. Her response was their goal was harmonization of rules of origin. Is that a goal that Wal-Mart would support?

MS. HOFMANN: Yes. We have a similar response. As you know, we source from many different countries, from Africa, from the Caribbean Basin, from NAFTA countries, and harmonization is definitely an issue because it's so difficult to navigate which rule of origin applies at which time. Harmonization, perhaps streamlining, would be our response.

MR. LEAHY: And I guess that could be considered as a barrier, because of so many different requirements being placed on you?

MS. HOFMANN: It certainly affects where we look at doing our sourcing, and places an undue burden upon some of -- a lot of this is done by our supplies as well, but it does have an impact on where we, as Wal-Mart International, do our sourcing, yes.

MR. LEAHY: Thank you.

CHAIRPERSON SURO-BRODIE: The last question by the Department of Commerce.

MR. DUNN: Good afternoon. You said in your oral statement that you can't offer some products because of tariff levels here in the U.S. Glancing at your written statement, you express some interest in textiles, apparel, footwear, leather goods, and food products, most of which, I believe, are at least examples of those products are available in your stores as well as other discount chains. Specifically what products are there that you might offer to American consumers if tariffs were to be lowered that you are not able to do at this point?

MS. HOFMANN: It's not so much a matter of not being able to offer the product to the consumers, it's being able to give them the lowest price possible. Classic example is shoes. Wal-Mart pays about $80 million a year in duties on shoes. We pay about $370 million in tariffs in general a year. Having the opportunity to lower some of these tariff barriers would allow us to pass on those savings to our consumers.

MR. DUNN: All right. Thank you.

CHAIRPERSON SURO-BRODIE: Thank you. This hearing is adjourned. We will start again at 1:15 -- so at 2:00 o'clock. It is 1:15. Sorry. I'm beginning to be delirious, and it will be chaired by Mr. Don Eiss, Senior Policy Advisor. Thank you very much.

(Whereupon the foregoing matter went off the record at 1:15 p.m. and went back on the record at 2:00 p.m.)

A-F-T-E-R-N-O-O-N S-E-S-S-I-O-N

2:00 p.m.

CHAIRMAN EISS: I'd like to welcome you all this afternoon back and reconvene the hearing. This hearing is to remind those of you who might not have been here this morning I'll make a few very brief introductory remarks to remind everyone the purpose for which we are here today, as well as the basic ground rules, and then we will move quickly and expeditiously right to the testimony.

This hearing is being conducted by the Trade Policy Staff Committee, an interagency body chaired by the Office of the United States Trade Representative. In addition to USTR, there are representatives from the Departments of Commerce, Labor, State, Treasury and the United States Trade Commission. We also have representatives from USTR from our market access office.

The subject of this hearing is Market Access in the Doha Development Agency Negotiations in the world Trade Organization, specifically for non-agricultural products.

This is the second half or the second part of this hearing, as a number of witnesses have already appeared during the morning session of this hearing. Just to briefly reintroduce the members of the panel, my name is Donald Eiss, and I work in the Office of Policy Coordination, and it will be my honor to chair these hearings this afternoon. Starting on my far left, and moving across, I'd like to introduce Mr. Tom Torrance from the Department of State, Mr. Paul Moore from the Office of the United States Trade Representative, Daniel Leahy from the U.S. International Trade Commission, Ms. Jean Janicke from the Department of Commerce, and Mr. Lester Koransky from the Department of Labor.

To remind witnesses of the basic ground rules for this hearing, we invite witnesses who have notified us of their desire and intent to testify to come before the panel and give five minutes of oral testimony, which will leave us approximately ten minutes for members of the panel to ask questions regarding the oral testimony and perhaps engage in any follow-up questions that the answers provided by the witnesses will create. That gives us approximately 15 minutes for each witness so that we might complete our afternoon list of witnesses in an expeditious manner. I will exercise the prerogative of the chair and in simply signaling to witnesses if, in fact, we have gone significantly past the five minute notional time frame for this oral statements. This is not a congressional hearing and you won't face a series of lights, but I'll find some readily identifiable, but not disruptive manner to let you know that it is time to bring your comments to a close.

With that I would invite our first witness for the afternoon, Mr. George L. Rolofson, Senior Vice President of CropLife America, to come to the table and provide his statements. Mr. Rolofson.

MR. ROLOFSON: Thank you, Mr. Chairman. My name is George Rolofson, Senior Vice President of CropLife America. I am also a member of ISAC-3, the Department of Commerce and USTR's Industry Sector Advisory Committee or Chemicals and Allied Products.

CropLife is a not-for-profit organization representing the major manufacturers, formulators and distributors of crop protection, pest control, and biotechnology products. CropLife America member companies produce, sell and distribute virtually all of the science-based technology products used in crop production by American farmers.

CropLife, on behalf of its members, welcomes the opportunity to testify in support of reducing or eliminating tariff and non-tariff barriers to trade in non-agricultural products, especially in crop protection chemicals. Further details are included in the accompanying document entitled "Market Access Proposal for Crop Protection Chemicals".

The non-agricultural market access negotiations should aim at achieving the deepest, most comprehensive across-the-board reductions in tariffs and non-tariff trade barriers, with the goal of totally eliminating as many tariffs as possible. In view of the fact that nearly half of the world trade in chemicals is comprised of intra-developing country trade, reduction or elimination of tariff and non-tariff barriers to trade in non-agricultural products would provide a substantial boost to the prospects for more rapid global economic growth and rising living standards worldwide.

The most effective means of achieving this goal in our opinion is to assure that the sectoral tariff elimination approach is included in the proposed outline of modalities in non-agricultural market access negotiations currently underway in Geneva. This approach is the same as the Uruguay Round's successful zero-for-zero initiative and the acclaimed Information Technology Agreement. Under the sectoral tariff elimination approach, countries comprising a satisfactory critical mass of trade in the chemical or cop protection chemical sector would agree to eliminate tariffs in that sector.

By requiring a critical mass of countries, the sectoral tariff elimination modality provides the flexibility to exempt the least developed countries that want to be excluded. In addition, longer transition periods may be allowed for some countries. If a formula approach is used, we recommend that all tariff reductions must start from applied rates and not from bound rates. In addition, we recommend that a high priority be given to increase the member country's participation in the Chemical Tariff Harmonization Agreement.

Negotiations on non-tariff barriers All right explicitly provided for in the Doha Ministerial Declaration and must be addressed as an essential component of the non-agricultural market access negotiations. Non-tariff barriers have been increasing in importance as trade-distorting factors. Some of those include discriminatory standards, pre-shipment inspections, custom valuation practices, regulatory requirements, port procedures and security procedures. Therefore, we recommend that a strong effort be made in the Doha Development Agenda negotiations in non-ag market access negotiations to reduce or eliminate trade-distorting effects of these and other non-tariff barriers.

According to a recent study funded by CropLife America and conducted by DTB Associates, it is estimated that annual tariffs paid globally on crop protection chemicals found in both Chapter 38 and active ingredients of these chemicals, found in

Chapter 39, that these tariffs range from $1 billion to $1.5 billion globally.

In response to your request to speak specifically to the products of interest to the U.S. crop protection chemical industry, we urge that sectoral tariff elimination modality mentioned earlier be used for chemicals listed under the Harmonization Tariff Schedules 3808.1, .2, .3, and portions of .4 and .9. Based on the U.S. Bureau of the Census data for 2001, the U.S. exports of crop protection chemicals listed under Chapter 38 were $1.5 billion, while imports under the same categories were under $642 million. Therefore, the U.S. and other crop protection chemical industry -- and our crop protection chemical industry definitely benefits from tariff reduction or elimination.

In addition, crop protection industry uses a number of chemicals included under Chapter 29 as active ingredients, predominant intermediates and sole intermediates. It is estimated that in 2001, the U.S. chemical companies exported 25 of these Chapter 29 chemicals valued at $5.1 billion, and imported 25 of these chemicals valued at $19 billion.

In conclusion, CropLife America and its member companies thank the U.S. Trade Representative for providing us this opportunity to comment on the priorities for the non-ag market access negotiations in the WTO. Thank you.

CHAIRMAN EISS: Thank you, Mr. Rolofson. For our first question, I would turn to Mr. Torrance from the Department of State.

MR. TORRANCE: Good afternoon, Mr. Rolofson. Your testimony indicates that nearly half of the global chemical trade is comprised of intradeveloping country trade. Is it also true for the specific headings you listed, and do you have any analytical information that would suggest tariff elimination by developing countries would lead to increased trade between those countries?

MR. ROLOFSON: We are working on a database that I believe would address that. We were not able to bring it today, but bottom line, it is our feeling that if we could reduce these tariffs we will enhance trade. I believe we would have to -- we will provide that information when we get it to you.

MR. TORRANCE: Okay. The first part of (tape fades out) regarding the specific subheadings that you identify, do those also apply to intradeveloping country trade?

MR. ROLOFSON: I believe they do, but we will have to provide that information to you. I'm sorry.

MR. MOORE: Could I just ask -- Paul Moore from USTR. Could I just ask a follow-up question to that. In terms of developing countries and the particular products that you've noted in your testimony, clearly they're related to agricultural production and I wondered if there has been any research on your part or the part of others that have looked at the benefits of tariff reductions on these products to increased agricultural production, particularly in developing countries.

MR. ROLOFSON: There are several countries that have enhance significantly their crop protection chemical sectors in recent years, and typically these are not countries where the chemistry is invented there, but it's follow-on chemistry where patents have expired and cheaper methods of production perhaps in some of these countries are available. I think it's important for us that as we classify a significant portion of the producing countries, we capture 85 to 95 percent of that production capability to cover those countries that are following on with chemistry, yet have very, very high tariffs for entry to our products. I'm not sure that answers your question specifically, but --

MR. MOORE: Thank you.

CHAIRMAN EISS: Ms. Janicke?

MS. JANICKE: Thank you. Actually, my question follows up on the statement that you just made. In your oral testimony you commented on the need to reach critical mass, and you also have mentioned in your written testimony about a target of around 90 percent of global production for chemicals. What countries would you see as being critical to achieving critical mass or to achieving this target and which of those countries are not currently members of Chemical Tariff Harmonization?

MR. ROLOFSON: The ones that stick out in my mind as those who really need to be in because they have amassed a significant manufacturing capability in recent years would be India and probably Brazil.

MS. JANICKE: Thank you.

CHAIRMAN EISS: Mr. Koransky?

MR. KORANSKY: Good afternoon. A question which I also mentioned to previous people. You said you're going to provide data about increases in exports. If it's possible to also get information about employment data, how much you expect with the decline in tariffs, how much employment could go up in the U.S.? The other question is, how the future is looking for chemical workers. Are you having problems attracting qualified people for that or is there a large enough supply of workers in your field?

MR. ROLOFSON: I think the problem we have at the moment is, of course, we are closely linked to the agricultural economy, and as growers have tighter and tighter margins and are finding it more difficult to export some of their commodities abroad, the impact to our business -- they just use less chemicals and the impact on our business is directly linked to that economy. I think in our countries we have the labor force to do what we need to do.

CHAIRMAN EISS: Any other questions? Mr. Rolofson, thank you very much for appearing.

MR. ROLOFSON: Thank you.

CHAIRMAN EISS: Our next scheduled witness is Ms. Maureen Smith, representing the American Forest and Paper Association, but I do not see Ms. Smith at the moment, so with that in mind, I would ask if Mr. Wells is here?

MR. WELLS: Yes, I am.

CHAIRMAN EISS: Would you be available to leapfrog to the next position at the table? We appreciate your flexibility. So our next witness will be Mr. Joseph M. Wells, president and Chief Executive Officer, the Homer Laughlin China Company of Newell, West Virginia on behalf of the American Restaurant China Council. Mr. Wells, welcome.

MR. WELLS: Thank you, sir. Good afternoon. My name is Joseph M. Wells III. I am the President and CEO of the Homer Laughlin China Company located in Newell, West Virginia. I am proud to represent the fourth generation of my family to operate this business. I appear here today on behalf of the American Restaurant China Council, a trade association that represents approximately 90 percent of the U.S. production of commercial chinaware. I am accompanied by Helen Grayson, Director of ARCC.

I want to thank you for calling this hearing and for the opportunity to express our deep concern about any tariff reduction on commercial chinaware, an action that would have a devastating impact on our companies, our workers, our industry, and the towns that depend on us as major employers. It is absolutely imperative that the United States ensure that any change in the tariff schedule is flexible enough to account for the needs of small companies like ours that are vital to our local economies.

Our product, commercial chinaware, is produced for hotels, restaurants, and other commercial establishments. The commercial chinaware industry is separate rom the household chinaware industry.

Commercial chinaware is strong, breaks less, and is more sanitary than household chinaware.

The commercial chinaware industry is vitally important to the communities in which we operate. Our plant in Newell, West Virginia, has been producing chinaware in this region since its founding in 1871. We have long been the most significant employer in our area. My family resisted take-over attempts and decided to keep this business in our family, primarily to ensure the continued operation of the plant and jobs in this country.

The Upper Ohio Valley region is also home to another commercial chinaware producer, the Hall China Company. Together we employ about 1500 people in a region where, as you know, there is relatively high unemployment. Other ARCC members include Buffalo China and Syracuse China, who employ over 600 more Americans in the production of commercial chinaware.

We fear that our plants and the livelihood of our workers will be threatened if the United States agrees to a tariff reduction on commercial chinaware. Many of our employees are semi-skilled workers with skills that do not transfer to the limited potential employment opportunities in the region where our plants are located. They are their families depend on the continued viability of our companies.

In the past several decades, the United States government has consistently recognized our industry's sensitivity to imports in the treatment of commercial chinaware in many different contexts. In the Tokyo and Uruguay Rounds, NAFTA negotiation and the GSP program.

Tariffs on commercial chinaware has very limited effect on the consumer. The price of commercial chinaware is an insignificant portion of the cost of operating a restaurant or a hotel, and a negligible part of the cost of dining out. Even with the current level of tariffs in place however, we continue to struggle against imports from a wide variety of countries. U.S. producers of commercial chinaware have lost significant market share to imports over the past decade. As tariffs have decreased due to our Uruguay Round commitments, import market share has increased. Imports currently account for 55 percent of the commercial chinaware market.

Our largest import competition by far comes form China. Chinese imports have steadily gained U.S. market share as the tariff has been lowered. Furthermore, Chinese products have taken away from U.S. industry sales through its aggressive pricing and copying of our designs. Chinese imports surged in the 1990s, and since 1998 have captured at least one-third of the total U.S. market, and have consistently accounted for over half of total imports. Homer Laughlin's worn flagship brand, Fiesta, has also recently lost sales to a Chinese importer that attempted to copy our popular design. These massive quantities of Chinese imports depress china prices throughout the U.S. market.

But competition fro imports occurs in all segments of the market, including at the higher end of the market. Imports from the United Kingdom have grown steadily over the past five years, and Germany, Italy, France and Luxembourg are also significant import sources. European manufacturers often enter the market at cut-throat prices.

Lower tariffs are sure to lead to a surge in import levels and create new incentives for investment abroad. We have already seen the link between tariff reduction and market share loss.

Before the last round of trade negotiations, we committed to our companies, our workers, and the U.S. government to invest heavily in our domestic operations to ensure that our facilities are efficient and competitive. We have followed through on this commitment. Our industry has invested millions of dollars over the past several years in state of the art kilns, glazing machines, storage facilities and other equipment, all in an effort to lower production costs and improve efficiency.

Our recent capital expenditures underscore our determination not to become another unfortunate statistic in America's eroding manufacturing base. We pledge to maintain state-of-the-rt plants and continue to provide jobs in our community. In order to continue to play this role in our community and in the economy, however, our operations need to be at a viable size to survive. If imports continue to erode our market share, our industry will not be able to survive. Therefore, we are asking the U.S. government to do their part by maintaining the tariff on commercial chinaware.

`Personally, I have no doubt that our future and well-being of many workers in the industry depend on whether the Bush Administration maintains the tariff on imports of commercial chinaware. We urge the U.S. government to ensure that there is maximum flexibility in any formula or modality that the U.S. government offers or agrees to so that the special circumstances of the commercial chinaware industry can be taken into account. In addition, we believe that any tariff reduction, if one is necessary, should be directed toward crating opportunities for the least developed countries while preserving the effectiveness of the tariff against traditional import sources.

Thank you for this opportunity to speak to you and I'll try to answer any questions you may have.

CHAIRMAN EISS: Thank you, Mr. Wells. For our first question, I'd like to turn to Ms. Janicke from the Department of Commerce.

MS. JANICKE: Thank you, Mr. Wells. You spoke about the investment that the industry has been making in modernization efforts, and I was wondering if you could comment on whether these investments are continuing, and also whether you've noticed any initial results in terms of combating market share losses from those investments?

MR. WELLS: I can only speak now for my company, and we are in the process of completing a $15 million modernization which hopefully will be online before the end of the year. Obviously, it's too soon to see any increase in market share. Are we going to continue to modernize our plants? I certainly plan to as long as our business are viable. Does that --

MS. JANICKE: Yes, it does. Thank you.

C H A I R M A N E I S S : Mr. Moore?

MR. MOORE: Thank you, Mr. Wells. I wanted to see if I could get a bit more specificity on your comments about an approach to tariff -- U.S.

approach to tariff reduction, and you talked about the need for the United States to be flexible, particularly if we took a formula approach, but I wondered if you could elaborate a bit more on what you see as flexibility? Are we talking staging, or are we talking about exclusions --

MR. WELLS: I'm sorry?

MR. MOORE: In terms of flexibility, how would you define or suggest that we be flexible with respect to your industry in a tariff negotiation?

MR. WELLS: Well, I think what I'm trying to say is that there has been talk about having an across-the-board cut, and I think that an across-the-board cut would be devastating to our industry. We're asking -- I'm not asking specifics here, I'm just asking you to look at our industry, look at how recent -- the Tokyo and the Uruguay Round has looked at us, how NAFTA has looked at us, and realize that we are a special circumstance and consider that.

MR. MOORE: Okay, thank you.

CHAIRMAN EISS: Mr. Koranzky from Labor.

MR. KORANSKY: Hi, good afternoon.

MR. WELLS: Yes, sir.

MR. KORANSKY: The first question I wanted to ask, is how do the tariffs for this industry in the U.S. compare to the tariffs in other countries? The Europeans or Chinese have higher tariffs, or lower tariffs? Would you happen to know that?

MR. WELLS: I don't specifically know that. I think we can -- we'll have a written summation to you and we can address that.

MR. KORANSKY: Right. The other question, how is your employment in your industry? Like for the past ten years it's been big decline in employment or it's been stabilized or --

MR. WELLS: Again, I can't speak for other members. I don't have that information. In my particular company, it has been fairly stable. In the past -- well, because of last year's economy and the effects of September 11th, our employment has gone down the last year.

MR. KORANSKY: Okay. Thank you for the information.

MR. MOORE: Can I ask a follow-up

question, in terms of -- sort of related to the question about tariffs and other countries. Are you exporting? Is your industry exporting anywhere, and, if so, do you have any particular --

MR. WELLS: Very little, very little. I don't remember off the top of my head what the export number is, but in comparison to what is being imported into this country, it's very small.

MR. MOORE: Okay.

CHAIRMAN EISS: Mr. Wells, thank you very much.

MR. WELLS: Thank you very much for allowing me to speak to you.

CHAIRPERSON MITTEN: Our pleasure. All right, next witness will be Ms. Maureen Smith, Vice President for International of the American Forest and Paper Association. Welcome, Ms. Smith, nice to see you.

MS. SMITH: Thank you very much. I have the requested 30 additional copies of my statement here. My name, as you pointed out, is Maureen Smith. Today, however, I want to wear two hats if I can. One as Vice President International for the American Forest & Paper Association, the other as Chairman of the Zero Tariff Coalition of the National Association of Manufacturers. AF&PA is the national trade association of the forest, pulp, paper, paperboard and wood products industry. Our industry accounts for seven percent of total U.S. manufacturing output. We employ approximately 1.7 million people, with an annual payroll of about $51 billion, and sales of approximately $250 billion.

U.S. tariffs on imports of paper and wood products are already at or near zero. Tariffs range on the paper side from zero to two percent, and on the wood size from zero to 10.7 percent. In most cases, these higher wood tariffs apply to a very limited number of wood products, plywood being an example, and even then, apply only to a very limited number of countries, which are not members of preferential tariff agreements such NAFTA, GSP, African Growth and Opportunity, Andean Development or Caribbean Basin, so that lets out a large part of the world.

For more than a decade, going back to

really at the beginning of the Uruguay Round, the U.S. forest products industry has made the worldwide elimination of wood and paper tariffs its top international priority. I think that's well known, probably to everybody on the panel. The Uruguay Round unfortunately failed to eliminate wood products tariffs even among developed countries, and on the paper side, we only succeeded in eliminating tariffs among some developed countries, and that left all developing countries where some of the highest tariffs, and frankly, the most competitive new producers are untouched.

So what that did was it effectively locked in the U.S. industry in a competitively disadvantaged position. A 1999 investigation by the ITC on behalf of Senate Finance, reinforced the fact that tariffs significantly impair the competitiveness of the U.S. forest products industry.

We have therefore urged successive administrations to pursue bilateral, regional, multilateral, and kind of deal that would eliminate wood and paper tariffs and restore competitive balance in forest products trade. In the interim, of course, our competitors have gone ahead and negotiated free trade agreements, which have further exacerbated the situation, the Canada agreement with Chile, being an excellent example, where suddenly we were further disadvantaged by an eight percent tariff margin.

So, for the purpose of our hearing today, the question of what the effect pf tariff elimination would be on our industry is really relatively straightforward. It would give us a fighting chance to compete. The real question is what will be the effect if tariffs are not eliminated in a relatively short period of time, and the answer there is continued loss of U.S. exports markets, a further deterioration in the industry's balance of trade.

We've already gone deeper into deficit by $10 billion since 1995, and a growing gap between rates of capacity expansion in the U.S. and other countries, and of course, there is almost an identity between capacity expansion and domestic employment. So, that's the real question that we need to focus on.

For this reason, the American Forest &

Paper Association has been a vigorous participant in the Zero Tariff Coalition of the National Association of Manufacturers. This coalition now represents 24 sectors, accounting for more than $300 billion in U.S. exports. For the 24 sectors participating in the Zero Tariff Coalition, including forest products, the most practical method of obtaining the greatest non-ag market access gains is through a Sectoral Tariff Elimination or STE approach.

STE is a proven approach that solves negotiating problems other modalities cannot manage, and this is particularly true of the huge disparities between generally low U.S. industrial tariffs and much higher tariffs in the developing countries. It's also true that STE addresses the problem of tariff escalation much more readily. that's a real problem in the wood products industry, but also it's a real problem for many developing countries who are trying to work their way up the value added chain, and, or course, they're countries who are willing to grant zero tariff on the raw material, but not on value added products, and all those are kind of really swept in and resolved if you take a sectoral zero tariff approach.

The approach that we're calling STE is basically the same as the Uruguay Round's successful Zero for Zero initiative and the ITA, although there have been some modifications introduced.

Under STE countries comprising a satisfactory critical mass of trade in a particular sector would agree to eliminate tariffs in that sector at the earliest feasible time. By requiring only a critical mass of countries in each sector, STE provides flexibility to exempt the least developed countries if we wish, as well as others that might be excluded, while ensuring that the sectoral agreement remains commercially meaningful. To assure flexibility, the definition of critical mass would in each instance be determined on a sectoral-specific basis.

We would also maximize flexibility by not defining the sector-specific critical mass early in the negotiations. The product coverage in any given sector would be determined by participating countries, and then finally, further flexibility could be gained by allowing transition periods for some countries and for certain sensitive products. The key point is that you absolutely lock in a commitment now to go to zero at some point.

The possibility of negotiating an initial package of STEs as an interim result prior to the conclusion of the DDA negotiations should be considered a highly desirable option. This is provided as a possibility in the Doha ministerial declaration, and an interim STE could be provisional and should be considered in determining the final balance of concessions however.

To ensure the widest possible interest, all WTO members should be encouraged to recommend sectors for STE treatment. As you well know, there is kind of a feeling that this method allows the U.S. to cherry pick, and I think for that reason we want to make sure that other countries come forward with the sectors that they are interested in and candidly, with a starting group of only -- of 24 sectors representing a very significant slice of our trade, but with this growing over time I think that we do have the capability of accommodating a good number of candidate sectors that would come from other countries, including some that at the end of the day might even surprise us.

Maximum attention should be given to STE candidates identified by developing countries. In the forest product sector, for example, our experience, and some of you were with us on that, in APEC, made it clear that there is significant developing country support interest and advocacy in getting tariffs eliminated in forest products. Additionally, the Doha Declaration calls for the elimination of barriers to trade in environmental goods and services, and this should also be considered for STE treatment.

In addition to new STEs, country and product coverage should be expanded in the existing sectoral measures in the -- from the Uruguay Round as well as broadening the coverage -- product and country coverage in ITA.

Finally, we should identify the complete elimination of tariffs as opposed to harmonization as an objective in the Chemical Tariff Harmonization Agreement.

Some additional points about how an STE might work. Number one, all tariffs in this negotiation must be bound. Number two, there should be a tariff standstill in applied rates during the course of the negotiations. Number three, technical assistance to developing countries should give appropriate prominence to documenting the potential gains in South-South trade associated with sectoral tariff elimination. To the extent possible, virtually all tariff cuts should be implemented immediately on implementation of the agreement, and all tariff cuts should be completed within five years.

A couple of concerns. One, the language in the Doha Declaration, which refers to the possibility of less than full reciprocity in tariff and non-tariff concessions by developing countries is major concern to the forest products industry, and also to several others in the Zero Tariff Coalition. Full reciprocal commitments from developing countries are essential in some sectors. This requires that we look at not the country as a whole as it might be put into a particular basket, but we look at sectors within the economy of those countries. In South Africa, to take an example, the forest products industry is fully integrated into the global economy and is highly competitive, and indeed, we think that would be a sector that South Africa would be very interested in pursuing tariff elimination.

Full reciprocal commitments from developing countries are essential in such sectors. We recognize, however, that some cognizance must be taken regarding different stages of development of the DDA participants. As an incentive to participate in STEs, developing countries could be accorded full credit for any tariff eliminations made in the STE approach, while developed countries would only get credit for that portion that would be applicable under a formula cut, so there's a little bit of difference in the crediting which would accrue to the benefit of developing countries and act as an incentive to them to participate in an STE.

For the forest products industry, I'd like to take this occasion to register our concern that some developed countries, and you know who they are, are using the concept of multi functionality to avoid trade liberalization in the forest product sector. Japan is a strong proponent of multi functionality, arguing that non-trade concerns justify the maintenance of agricultural and forestry subsidies and high levels of border protection, including high tariffs. We strongly urge the U.S. government to reject this approach for the thinly disguised protection it is. An efficient and well-managed forest products enterprise is an effective instrument for advancing social and economic sustain ability, especially in rural areas, and this depends on trade liberalization and open markets.

In my prepared statement, I also have identified some non-tariff barriers that are of concern to the forest products industry. I will just briefly list those: import surcharges, import permits and licenses, credit restrictions, poor law enforcement, government incentives and subsidies, and sanitary and pytosanitary measures.

In conclusion then, what should be our next steps. Last month I was honored to participate in meetings in Geneva and Brussels organized by Commerce and USTR for the Chairman of Industry Sector Advisory Committees. In an extraordinarily productive round of meetings with WTO ambassadors representing countries as important and diverse as the EU, Canada, Japan, Mexico, Brazil, China and South Africa, to just name a few, we encountered broad support for the Sectoral Tariff Elimination approach and no country that opposed including ti on a menu of possible modalities. So, even if a country said we -- you know, we don't see that that's of particular interest, there was no opposition to including it on the menu of modalities.

We therefore strongly urge the U.S. government to harvest this support and table a proactive market access proposal built on a sectoral approach with the clearly stated objective of achieving the elimination of tariffs in as broad a range of sectors as possible at the earliest possible time. Building on the discussions we have had in

Geneva and elsewhere, members of the Zero Tariff Coalition are anxious to support our negotiators in this effort, and we stand ready to work with our colleagues in other countries in an industry-to-industry effort which parallels and supports what our negotiators are doing.

AF&PA very much appreciates this opportunity to provide the Inter-Agency Trade Policy Committee with input regarding the effects of tariff elimination and other trade liberalization measures on our industry. Several of our member companies are actively involved in the ISAC process and we look forward to providing continuing advice as the negotiations proceed. Thank you.

CHAIRMAN EISS: Thank you, Ms. Smith. For our first question, we'll turn to the Department of Commerce, Ms. Janicke.

MS. JANICKE: Thank you, Ms. Smith. In your testimony you talked a little bit about the balance of trade issues that are facing the forest products industry, and on the import side, I was wondering if you could just comment briefly on any trends you've noticed in terms of foreign country suppliers to the U.S. market, and on the export side, I think you actually answered this question in your testimony today about any specific examples of where U.S. exporters have been hurt by third country regional trade agreements, or bilateral trade agreements cutting U.S. suppliers out of the market.

MS. SMITH: Well, on the import side, I think if -- pretty much you name the country and their imports in our sector have increased significantly. Obviously, Canada is one country where the imports have increased, but looking to Asian suppliers like Korean, even Japanese paper imports have increased. The Japanese themselves can't believe that they're selling in the U.S. market that they are. European imports have increased, so we are the target of opportunity because of our size and our relatively high income, and because of the accessibility of our distribution system, so with absolutely no tariffs whatsoever we are the target for countries that want to build a market, we're the target of countries like Korea that have made a mistake in terms of building excess capacity, so you name it, if you look across the board it would be hard to imagine a country whose imports have not increased.

MS. JANICKE: Are there any other examples besides the Canada-Chile FTA that you would like to highlight in terms of other regional trade agreements that are hurting U.S. exports?

MS. SMITH: I think that that's the most startling example, because the trade changes were just overnight, you know, in two years from the implementation of that agreement we lost over $100 million in exports to Chile. Now, I mean, that doesn't sound like an awful lot of money, but that's pretty close to half of our total sales in Chile, it's not a big market, but it, you know, when you lose that kind of money overnight, then you can -- there's only one cause you can point to.

MS. JANICKE: Thank you. You also mentioned the non-tariff barriers that your industry is facing, and you've provided a list in your written testimony. I'm just wondering if you wanted to elaborate on any of them or if there are any one's that you wanted to highlight.

MS. SMITH: I think if you look at that list, they apply mainly on the wood product side, where the non-tariff barriers are, if you will, more quantifiable and more transparent. On the paper side, we've had a great deal of difficulty in actually identifying non-tariff barriers and I think that is one of the questions that arises in my mind when countries advocate, you know, tandem negotiations on tariff and non-tariff barriers. We have in front of us a tariff database that as complicated as it is, is nevertheless usable for negotiations. I -- the database on non-tariff barriers is not as usable, it's not as quantifiable, it's not as well-documented. We have tried to do something like this in the forest product sector in APEC, and failed. I mean, the report that was produced, I think many of you have seen it, it was not usable in negotiations at all.

MS. JANICKE: Thank you.

CHAIRMAN EISS: Mr. Moore?

MR. MOORE: Mr. Smith, I have a question

actually regarding what -- well, two questions about if I could indulge the chair. First, you mentioned in your testimony that we should look at developing countries in terms of their competitiveness in this particular sector rather than their overall level of development, and I wondered if the Zero Tariff Coalition has gone any further on that statement and actually done some research or if there is any information that you could provide us and, in particular, would be curious to know what types of factors that you would use to determine a country's competitiveness in a particular sector.

MS. SMITH: First of all, I think on an industry-to-industry basis, we are well equipped to identify for you sectors within countries, which are competitive that we meet in world markets, and you know, I had an exchange, for example, with the South African ambassador in Geneva which was very instructive because he was taking a sort of, you know, developing country approach, and said that they needed more access to developed country markets because that's the only way they were going to integrated into the world economy, and I was able to point out to him that, as I mentioned, the forest products industry in South Africa is globally involved, it's integrated in the world economy, that there is a South African company called SAPI that is very -- it ranks among the top ten paper companies in the world, it is a very significant force in Europe, and is a member of AF&PA.

So, in order for SAPI to grow, SAPI wants these other tariffs around the world eliminated in our sector, and you know, he immediately well understood what I was talking about that and said, well, we'll have to look at it that way, and they have to go back into their economies because there will be sectors where they have a real interest in opening up other global markets. So, in answer to your question, I think that I'm not sure that I would be offering you any, you know, standard macroeconomic indicia. You could come up with them better than I, but I think what we have volunteered to do, and we're already assembling that information, is to identify for you the sector -- the organizations within countries that we are in touch with, and to -- that's -- we'll work with you to, if you will, have those sectors identify their interests to their government.

MR. MOORE: My second question is, very briefly, in terms of the concern you raise on multi functionality, In noted in your written testimony it's separated from your list of non-tariff barriers, and I'm wondering how you would suggest that the U.S. government approach that. Is this a broader issue? I know it comes up in agriculture as well, it's not one we hear often in non-ag so --

MS. SMITH: I think it is a broader issue because, I mean, the way I describe it is an effort to take forest product sector, for example, and just move it to a siding, to a railroad siding, and insulate it from trade liberalization of any kind. I mean, the Japanese assert that it is a defense against tariff liberalization against non-tariff liberalization against, you know, standards -- everything, and so that is why we feel that it has to be addressed in a very sort of head-on way because the objective is just to create another class of sectors where, you know, there will be no prospect of their participating in the larger process of trade liberalization.

MR. MOORE: Thank you.

CHAIRMAN EISS: Mr. Koransky, do you have a question?

MR. KORANSKY: I've just got a couple of quick questions. Like in the past four or five years, how has employment been in your industry? Has it been stable or growing --

MS. SMITH: No. Over the -- since '97 we have lost in the paper sector about 14 percent of our employment. It's been a huge drop in employment. We have been forced to close mill after mill. We have been historically working very closely with our unions, with PACE, and on the wood side with the carpenters and joiners, and actually it was very interesting, when we first or one of our first forays in this area was in Seattle and the PACE representatives participated in our press conference in Seattle, urging that we get zero-for-zero in our sector because they well understand that this is absolutely fundamental to the survival of their jobs. You know, we have -- you know, I sort of say that we're a bit of a poster child in that, you know, we've done pretty much all that we can, but you know, tariffs are something that can only be addressed on a government-to-government basis, and you know, the acceptance of this on a level playing field is a, you know, can only be addressed by governments.

MR. KORANSKY: Right. Thank you.

CHAIRMAN EISS: Ms. Smith, thank you very much.

MS. SMITH: Thank you.

CHAIRMAN EISS: Our next witness will be Ms. Anne Craib, Director for International Trade and Government Affairs of the Semiconductor Industry Association. Ms. Craib.

MS. CRAIB: Thank you for having me. You'll have to forgive me, I'm losing my voice a little bit. My name is Anne Craib. I am Director of International Trade and Government Affairs for the SIA. The SIA represents about 90 percent of the U.S. semiconductor industry. As I am sure many of you are aware, the industry right now is struggling to come out of an unprecedented economic downturn. Last year sales were down approximately 33 percent from the prior year. In August, the last month for which data is available, sales were up 2.2 percent over the prior month. We're hoping that this very modest growth is going to continue and that we'll be able to finish the year out with growth in the two to three percent range, but this is down quite substantially from growth levels that the industry has experienced in the past.

Despite this economic downturn, American ship makers are the most competitive in the world, with just over 50 percent of world market share. Over 60 percent of our sales are derived from overseas transactions, and from what we are forecasting right now, that percentage is promising to go up. So, maintaining the market opening gains that we've made and moving forward with further market opening is really vital to our sector.

A lot of focus is being placed as part of the new negotiations, on development, and we believe that several of the policies that we're advocating that will benefit the U.S. semiconductor industry will also directly benefit economic development in developing countries. Full access to and utilization of IT products has proven economic benefits. In the U.S. for example, the IT sector comprises about eight percent of the economy, but it contributed a full third of growth in U.S. GDP from 1996 to the year 2000. At the same time, it lowered inflation and increased productivity, and we believe the policies that permit access to and investment in both semiconductors and other IT industries should be at the heart of the Doha Development Agenda.

Imposing tariffs on semiconductors or other IT products ironically actually serves to hurt the economic competitiveness of the country imposing those duties. A good example of this is Brazil and India. If you look at both at those countries, they actually made early strides in IT and looked as though they were going to be really developing those sectors, you know, 20 years ago. They imposed prohibitively high duties to try and protect their domestic industries, and that proved not to be such a wise course of action. Singapore and Hong Kong, who were at similar stages of development initially, took exactly the opposite route, eliminated their duties, and have really prospered. So we think that eliminating duties on both semiconductors and other information technology products would really benefit not only the U.S. industry, but also the development of the countries that choose to follow that course.

We believe that either getting all remaining WTO members who have not yet done so to sign onto the Information Technology Agreement or using another means to achieve the elimination of duties would be a very positive outcome for this round.

Also central to economic development are rules on trade and investment. The freedom to engage in direct investment is critical to market access in our sector, and our companies still face pretty complex rules and requirements when investing overseas. Direct investment by high tech companies does spur economic development in the country where the investment takes place. Existing WTO investment rules don't adequately discipline some of the restrictions that our companies face. For example, being required to enter joint ventures or transfer technology or IP in exchange for market access.

In addition to pursuing policies that will help foster development, we must not lose ground in areas like the trade laws and intellectual property rules that help insure fair trade. A state of the art fabrication facility or FAB today costs about $3 billion, 80 percent of that is in equipment that's totally obsolete within three years. Our companies, in order to remain competitive, also have to spend approximately 17 percent of sales on R&D. This is really an unprecedented level of investment just to say competitive in our industry, and companies that make these huge investments have to be able to compete fairly in order to recoup their investment and remain viable businesses.

Anti-dumping rules we believe today, foster fair competition and create an environment where technology, product offering and price, and not the ability to sell below the cost of production, or price discriminate to gain expert market share determines success, and we believe that's very, very important. I'm afraid that most of -- all of the proposals actually, that have been made to date to change the anti-dumping agreement are aimed at weakening the ability of U.S. industry to use our anti-dumping laws to offset unfair trade practices. There is an extensive history of dumping in our industry. Many of you are very familiar with D-RAMS. Most people are less familiar with the case from the 1980s on E-PROMS. We face dumping. We were able to use U.S. trade laws to stop the unfair competition in that sector. As a result, U.S. companies stayed in the E-PROM business. E-PROMS led directly to flash. U.S. companies today dominate the flash market.

If we had not been able to stop dumping, our companies wouldn't be in that sector. They never would have made the transition to flash where they now lead in the U.S. market -- pardon me, in the world market share. Without the ability to stop dumping, as I said, literally the companies would not be in that business segment today, and so we think proposals that would weaken U.S. anti-dumping laws threaten to undermine the consensus in favor of market liberalization, and they really could have disastrous consequences in our sector.

Several new issues have risen in importance that we think merit attention in these new negotiations. Some, like liberalization of rules for e-commerce promise to provide significant new benefits. Others, including competition policy, we think, require further study to make sure that they're additive in terms of what we're trying to accomplish. Electronic commerce and internet applications have been demand drivers in our, albeit much slower, market recently, and we applied U.S. negotiators who, in Doha won a commitment to maintain the moratorium on customs duties on electronic transmissions through the next WTO Ministerial.

We have unanimous agreement of the largest chip companies in the U.S., Japan, Europe, Korea and Taiwan who believe that this moratorium should be made permanent.

Similarly, we believe that electronically delivered goods and services -- I'm sorry, goods, should receive no less favorable treatment than similar products delivered in physical form, and that their classification should ensure the most liberal treatment possible.

We also believe that the WTO should seek to prohibit the use of copyright levies on digital equipment and blank digital recording media where alternative technological solutions are available. This is a fairly new issue for us, but some of the levies that are being proposed on electronic digital media could increase the cost of product to the consumer by 50 percent or more, and in almost -- well, all cases that we know of to date, the levies that are collected would be used to reimburse copyright holders in the country where the levy is proposed, so it would not necessarily even be used to compensate those whose artistic or creative works is being copied. We think technological solutions that can target a specific work that's being copied would be far preferable.

New disciplines are being contemplated in the area of competition policy, with a possibility that negotiations might be launched in 2003. These talks are intended to take account of the needs of developing countries where ideally competition policy rules would help create properly functioning home markets. However, discussion to date appears to rest primarily on theory, rather than fact, and we would propose that a very serious examination of the factual evidence needs to be undertaken before it's determined that competition policy rules are warranted.

Finally, we have some concerns about the dispute settlement process, and we think that the process really needs to be made more transparent and accessible to U.S. industry and to those affected by its decisions. The new development agenda, we think, has great promise in terms of opening markets. Frankly the semiconductor industry is a poster child, I think, for trade negotiations. We've always been very well represented where we've always been strongly in favor of agreements that open markets and we have every anticipation that this will be a similar experience to what we've had in the past. However, we really strongly caution that any improvements can't be bought at the expense of damage through changes in the anti-dumping law or competition policy where some things that are very harmful -- potentially harmful have been proposed. Thank you.

CHAIRPERSON MITTEN: Thank you, Ms. Craib. First question will be from the Department of Commerce.

MS. JANICKE: Thank you, Ms. Craig. The IT analysts at the Department of Commerce were very interested in all the areas that you highlighted in your testimony, but they had particular interest in some of the new issues that you raised. You mentioned the issue of copyright levies and gave the example of Canada, and I was wondering if you were aware of any other countries that are considering this similar type of policy.

MS. CRAIB: Levies are already in use in several of the EU countries. I believe that it's 12, and I can certainly provide you with an exact list of what they are doing if you would like it. We also understand that there may be some interest in Latin America.

MS. JANICKE: Thank you. If you are able to provide anything --

MS. CRAIB: I'll get you all of the information that we have, yes, and I'll get your contact information.

MS. JANICKE: Sure.

MS. CRAIB: Okay.

CHAIRMAN EISS: Mr. Koransky with the Department of Labor.

MR. KORANSKY: Your paper lists a number of very good suggestions. The only question I really have for you, is there any particular initiative -- what would have the greatest impact on crating jobs in the U.S. Some of them, it seems like, they would be beneficial, but some are sort of marginal.

MS. CRAIB: Well, the semiconductor industry does the vast majority of its high wage, high value added, manufacturing and research development in the United States. That has always been the case and going forward we anticipate that that will still be the case, so anything that helps increase market access, even our ability to invest overseas, will be generating the highest wage, highest value added jobs here in the United States because this is where our research is done. This is where, you know, the greatest value is created, so I think any and all policies that help us sell more product, regardless of where it's actually manufactured, will be generating high wage jobs in the United States.

MR. KORANSKY: Thank you.

MR. MOORE: Good afternoon. I just wanted to clarify if I could, your position on the elimination of tariff barriers. The way I understand it, simply expanding participating in the ITA would not necessarily capture all products of interest to you. There are some remaining tariffs on --

MS. CRAIB: There are a few, but for the most part, many of the products that our semiconductors go into, if you look at a breakdown, and I'd be happy to send it to you, but computers accounts for roughly 50 percent of our demand, and telecommunications accounts for a fairly significant -- telecommunications slash communication products account for a large percentage of the remainder, in addition to consumer, and consumer is an area that's not as well covered, but we're seeing a convergence in consumer and you know, like personal digital assistants and so on, so we think that the coverage is fairly broad. We're looking at what might be covered, say under an ITA02. I don't have a specific list for you, but we really think that a lot of the potentially high growth areas like Latin America which have not yet signed on to the ITA, we'd really like to see them sig on, and that would be a good first step for us.

MR. MOORE: Okay, but in terms of other IT-related industries who've suggested just going to zero overall or going to zero in particular chapters, would that be, and I don't know if you're familiar with those proposals, but does that give your members any kind of pause?

MS. CRAIB: In terms of products that are not covered by ITA-1?

MR. MOORE: Right.

MS. CRAIB: I think most of the products that we're worried about are currently covered --

MR. MOORE: Okay.

MS. CRAIB: -- under ITA-1. Yeah.

MR. MOORE: Thank you.

CHAIRMAN EISS: Okay. Ms. Craib, if I could, one thing if you do provide some additional information, I think in order to make sure that it gets to be a part of the record, if you could also make sure that it's submitted to Ms. Blue.

MS. CRAIB: Absolutely.

CHAIRMAN EISS: And with that, I think we can declare the hearing adjourned.

(Whereupon the above-entitled proceeding was concluded at 3:10 p.m.)